

1990-1991 BUDGET

Highlights

Highlights of the Budget Speech:
delivered to the National Assembly by
Québec Finance Minister Gérard D. Levesque,
on April 26, 1990.



Gouvernement du Québec
Ministère des Finances

Message from the Minister

Since 1986, we have devoted considerable effort to putting public finances in order. The remarkable progress we have made will enable us to continue pursuing our objectives and adapt them to the less promising economic and budgetary outlook.

The combined effect of the current economic slowdown, the excessively high interest rates imposed by the Bank of Canada, and the restrictive fiscal and budgetary policies of the federal government limits our potential for growth and hampers our efforts to put public finances in order.

Nevertheless, the 1990-1991 Budget proposes measures, in particular the upgrading of workers' skills, that will enhance the productivity and efficiency of our economy. It also strives to maintain a fair and competitive tax system, support regional development and increase assistance for families and the underprivileged members of society. Finally, it seeks to revitalize the management of public services.

Admittedly, we have had to make a number of difficult choices in order to sustain what has already been achieved and thereby satisfy in a responsible manner the expectations of Quebecers while creating the conditions needed to secure the future of coming generations.

Gérard D. Levesque
Minister of Finance

April 26, 1990

Economic and budgetary situation

In 1990-1991, four major factors will place constraints on Québec's public finances and limit the options open to the government in formulating budgetary and fiscal measures.

Economic slowdown

After seven years of sustained economic growth, Québec is experiencing a slowdown characterized by high interest rates and a Canadian dollar that penalizes businesses that must compete internationally.

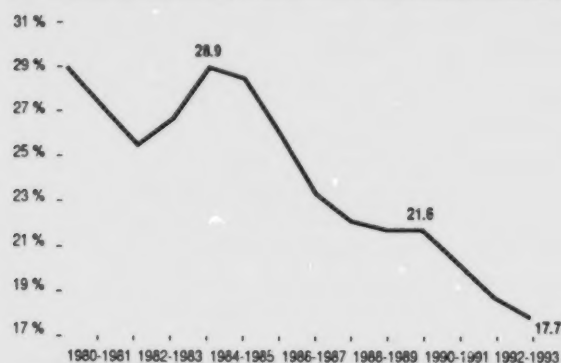
Output grew by 2 % in 1989, compared with 5.3 % the previous year, and should increase by 1.3 % in 1990.

This sluggish economic growth will inevitably have an impact on the growth of government revenues.

Federal cuts

Federal funding cuts in health and higher educational services over the past few years represent a shortfall of \$ 1.3 billion for fiscal 1990-1991, not counting cutbacks in other programs. Owing to the withdrawal of funding, federal transfers are stagnating and a growing strain has been placed on the province's finances.

FEDERAL CASH TRANSFERS
(as a percentage of budgetary revenue)



Interest rates and the public debt

While disciplined management of public expenditure has made it possible to reduce the deficit and net borrowing requirements by more than half over the past five years, the government will have little room to manoeuvre because of the large deficit of over \$ 16 billion that has accumulated in the current account since 1977-1978 to pay the "grocery bill".

In addition, the proportion of revenue that must be allocated to paying the interest on this debt has increased on account of the high rates adopted by the Bank of Canada.

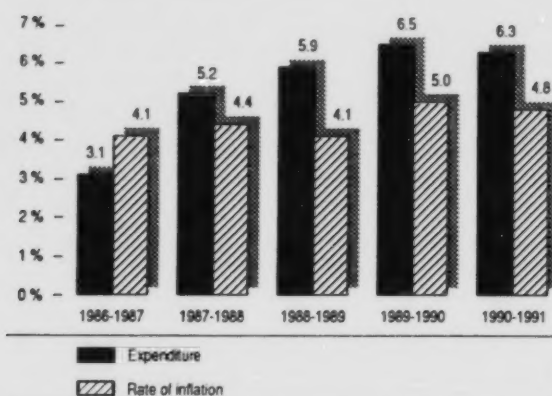
Pressure on budgetary expenditure

Strict control of expenditure has made it possible to put public finances in order. However, pressure is growing in particular in the areas of higher education, the environment, and the renovation of public sector infrastructures. The situation is aggravated in the health and social services sector by major demographic changes, including the aging of the population.

Consequently, it is increasingly difficult to stabilize the growth of expenditure.

In 1990-1991, budgetary expenditure will reach \$ 35.351 billion, a 6.3 % increase in relation to 1989-1990.

GROWTH IN EXPENDITURE¹ AND INFLATION
(In percentage)



¹ Data adjusted to exclude the impact of pre-recording expenditure.

Accelerating public investment

To sustain the economy and foster job creation, the government has decided to accelerate public investment in certain key sectors. In addition, its past and present efforts in the realm of hydroelectric development will continue to bear fruit.

Public and parapublic sector : \$ 279 million

Restoration, renovation and expansion work will be stepped up in the elementary and secondary education (\$ 93 million), higher education (\$ 38 million), and health and social services (\$ 76 million) networks and in cultural facilities (\$ 72 million). This investment program should lead to the creation of 5 000 jobs in the construction and allied industries, at a time when this sector is experiencing a slowdown.

Road network : \$ 1.7 billion

Additional funds will be allocated over the next five years to improving the quality of the road network on account of its strategic importance to the development of Québec. These funds will be devoted to road construction and repair work and to improving road safety.

Hydro-Québec : \$ 3.48 billion

By devoting enormous sums to improving distribution infrastructures and boosting production capacity at James Bay, Hydro-Québec's development plan will maintain over 29 000 jobs.

Aluminum smelters : \$1.6 billion

With the construction of major projects such as Alumax in Deschambault, SGF-Alouette in Sept-Îles, Reynolds in Baie Comeau and ABI in Bécancour, capital expenditures in the aluminum industry will increase by 60 % compared with last year.

On the whole, these capital expenditures will constitute one of the principal driving forces of economic growth in 1990. As a result, non-residential investment will rise by around 13 %, which is well above the national average and double the rate in Ontario.

Support for the regional economy

- A large portion of public investment will be made in outlying regions.
- A five-year plan, with a budget of \$ 50 million, will be implemented to **restructure the fishing industry**.
- Further deductions of up to 166 2/3 % for **mining exploration costs** incurred in Québec (flowthrough shares) will be continued in 1991, representing supplementary assistance of \$ 13 million for the mining industry.
- Appropriations for the **private and public forest management program** will be increased by \$ 5 million.
- An additional \$ 6 million per year will be allocated to the ministère du Tourisme to intensify the **promotion of tourism**.
- The **seasonal employment program** in Gaspésie and the Îles-de-la-Madeleine will be extended for another year with a budget of \$ 6 million.
- The Chibougamau-Chapais region will receive \$ 4 million to facilitate the **start-up of new mining projects**.
- The OPDQ could make additional appropriations of \$ 10 million for **regional development projects**.

Upgrading worker's qualifications

Manpower training : \$ 100 million

To upgrade workers' qualifications and enhance the competitiveness of Québec industry, the government will grant a **refundable tax credit** to duly incorporated businesses that invest in the training of their employees.

Eligible expenditures for this purpose will include :

- The cost of formulating a human resources development plan.
- Certain travel expenses and the training fees charged by educational institutions or recognized private training corporations.
- The wages of the employee when training occurs during normal working hours.

For the next three years, the **tax credit** will be :

- 40 % for small and medium-sized businesses ;
- 20 % for large companies ;
- 50 % or 30 %, as the case may be, for the formulation of a human resources development plan.

Business assistance

Assistance for combinations of small and medium-sized businesses: \$ 15 million

Owing to the globalization of markets, small and medium-sized businesses will have to pool their resources to become more competitive at the international level.

In 1990-1991, the Société de développement industriel du Québec (SDI) will administer a new program offering risk-sharing loans to promote business combinations.

Assisting businesses experiencing difficulty : \$ 30 million

Over the next two years, the SDI will offer last-resort assistance to businesses that, despite their basically sound prospects, are temporarily experiencing difficulty on account of the economic slowdown and high interest rates. Eligible businesses will be able to obtain a risk-sharing loan for a period of up to five years. They will not be required to repay capital and interest during the first year.

Capitalization assistance

- The start-up assistance program for **Québec Business Investment Companies (QBICs)** will be extended for two years.

Under current rules, the SDI may grant a subsidy equivalent to the lesser of 50 % of start-up costs and \$ 5 000. If a QBIC makes a public offering, the subsidy ceiling will be increased to \$ 10 000.

- **QSSP investment funds** which use at least half of their funds to invest in developing corporations eligible for inclusion in the QSSP will be entitled to a 12 month extension on the deadline for investing in the QSSP shares of such corporations.
- The annual ceiling on deductions under the **savings and credit union permanent shares** savings plan will be raised to \$ 2 000, and the overall ceiling to \$ 5 000.

Federal GST

The probable implementation of the federal GST in January 1991 will cause serious administrative problems for companies, since they will be subject to two parallel sales tax schemes.

Consequently, the Québec government is exploring, with the federal government, possible solutions to these problems. The government's objective is to protect the interests of Québec and its taxpayers. Despite progress in the discussions to date, the GST is still a highly unpopular tax, which Québec would have preferred to do without.

As soon as possible, Québec businesses will be informed of the administrative framework in which they will have to operate beginning next January 1.

In the meantime, the government plans to include the GST in the sale price used to compute Québec consumption taxes, in accordance with current practices respecting the federal manufacturers' sales tax.

Protecting the environment

The government will step up its efforts to reconcile economic development and environmental protection.

- **The Technological Development Fund (TDF) will include a new section for environmental research and development.** With a five-year budget of \$ 50 million for this purpose, the TDF will support research projects conducted by businesses for the purpose of developing environmentally sound production techniques and products. The fund will also be used to support, through calls for proposals, environmental research teams.
- **A new agency will be responsible for reducing, recovering and recycling solid waste and developing markets for recycled products.**
- **The ministère de l'Environnement will be allocated an additional \$ 55 million**, of which \$ 15 million will be used to intensify prevention, monitoring and control measures for the protection of public health and the environment. The department's appropriations will total \$ 470 million, which represents an annual increase of 20 % since 1985-1986.

Individual taxation and assistance for families

Since 1986, the government has made a determined effort to make the Québec tax system more competitive, encourage Quebecers to work and increase assistance for families and the less privileged members of our society.

To allow the government to continue pursuing these objectives despite the difficult economic situation, the Budget provides for :

- a reduction in personal income tax ;
- additional support for the underprivileged and for low and middle-income households ;
- new assistance measures for families to better help parents shoulder their family obligations.

As a whole, these measures represent additional assistance of **\$ 408 million** for individuals and families, or a gain of **\$ 358** for a couple with two children and an income of **\$ 40 000**.

Measures pertaining to families

- The **allowance for newborn children** for the third child and subsequent children will be raised from \$ 4 500 to \$ 6 000. It will be paid in quarterly instalments of \$ 375 over the four years following the birth of the child.
- The **Québec maternity allowance** for the two-week waiting period prior to the payment of unemployment insurance benefits will be increased from \$ 240 to \$ 360.
- **Family allowances and allowances for young children** will also be increased by 4.8 % as of January 1, 1991.
- **Government assistance for child care services** will increase by more than 20 % this year, bringing the budget of the Office des services de garde to \$ 152 million.
- As of January 1, 1991, the deduction for **child care expenses** for children under 7 will be raised to \$ 4 400 and that for other children to \$ 2 200.
- To allow as many families as possible to benefit from the **home ownership** program, the maximum sale price of a residence eligible for downpayment assistance will be increased to \$ 110 000.

FINANCIAL SUPPORT FROM QUÉBEC FOR CHILDREN¹ (In dollars)

	1985	1990	1991
Couple with \$ 25 000 income			
☐ One child	95	1 572	1 716
☐ Two children	521	2 319	2 501
☐ Three children	880	4 763	4 931
Couple with \$ 40 000 income			
☐ One child	95	983	1 130
☐ Two children	521	1 730	1 916
☐ Three children	880	4 174	4 412

¹ In this table, the couple has one work income and no child care expenses. The first child is 7. In the case of the couple with two children, the children are 2 and 7. The couple with three children has a newborn child, a child of 2 and one of 7.

Measures pertaining to individuals

- To take into account the rise in the cost of living, the benefit scales of the EI (Employment Incentives) and PWA (Parental Wage Assistance) programs will be indexed by 4.8 % on January 1, 1991.
- The basic personal **tax credit** and the tax credits for a married person, dependent child, other dependant, single-parent family and person living alone will be indexed by 4.8 % on January 1, 1991.
- As a result, **tax thresholds** will be raised again this year. Since 1985, these thresholds have been increased substantially. For example, a couple with two children will begin to pay taxes when its income reaches \$ 24 324, compared with \$ 10 015 in 1985.
- Funds accumulated in a **Registered Home Ownership Savings Plan (RHOSP)** may be used for the purchase of furniture up to the end of 1990.

Assistance measures pertaining to property tax

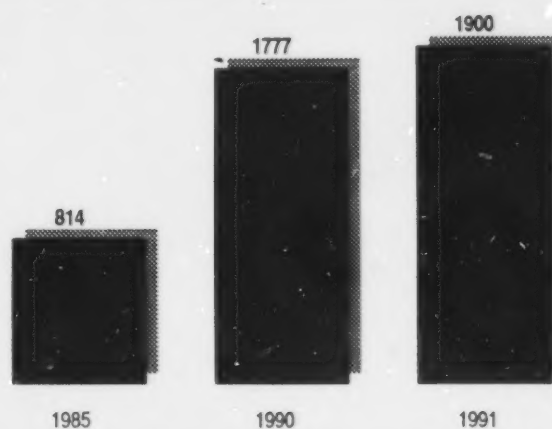
The impact of the eventual increase in the school property tax will be offset by certain measures.

- Beneficiaries of the LOGIRENTE program and of the housing allowance provided for under income security programs will be reimbursed for up to 75 % of the school property tax increase.
- Low-rental housing program beneficiaries will not be affected by the increase in the school property tax.
- Persons eligible for the property tax refund will be reimbursed for 40 % of the tax increase.
- The maximum amount of taxes giving entitlement to the property tax refund will be raised from \$ 1 050 to \$ 1 150 in 1990 and to \$ 1 205 in 1991.
- Farmers and woodlot owners will be reimbursed for up to 70 % and 85 % respectively of the school property tax increase.

Impact of the measures pertaining to individuals and families

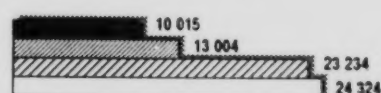
- Taxpayers will realize a gain of \$ 408 million.
- Families will receive 60 % of this amount, or \$ 243 million.
- Québec's financial support for children will have increased by more than \$ 1 billion since 1985.
- Changes to the allowance for newborn children for the third child and subsequent children and the increase in the maternity allowance will cost \$ 19 million and \$ 6 million respectively over a full year.
- Income security program beneficiaries will receive an additional \$ 63 million per year.
- The indexation of the tax system and family allowances will represent a gain of \$ 312 million for taxpayers.

GOVERNMENT FINANCIAL SUPPORT FOR CHILDREN (in millions of dollars)



CHANGE IN INCOME LEVELS AT WHICH INCOME TAX BECOMES PAYABLE (In dollars)

Couple (one work income) with two dependent children



Single-parent family with one dependent child



Single person living alone



■ 1985 ▨ 1990
 ▩ 1987 □ 1991

Gains for the elderly

Tax thresholds for retired Québec taxpayers 65 or over will be raised from \$ 16 468 in 1990 to \$16 740 in 1991 for a couple and from \$11 022 to \$11 334 for persons living alone.

In addition, elderly people will benefit from the fiscal measures announced in the Budget.

GAIN UNDER THE 1990-1991 BUDGET RETIRED TAXPAYER 65 OR OVER 1991 TAXATION YEAR (In dollars)

Total household income ¹	Person living alone	Couple
15 000	121	N/A
20 000	127	162
25 000	127	162
30 000	127	162
35 000	127	172
40 000	71	172
50 000	59	172
75 000	59	100

¹ Total income includes old age security benefits and private pension and investment income. The minimum income of a couple 65 years old or over has been estimated at \$ 15 510 for 1991.

GAIN UNDER THE 1990-1991 BUDGET
1991 TAXATION YEAR
(In dollars)

Household work income	Couple with one child, 6-11		Couple with two children, 6-11 One work income
	One work income	Two work incomes	
0	502	502	548
5 000	518	518	564
10 000	518	518	565
15 000	423	423	497
20 000	486	423	530
25 000	325	823	358
30 000	325	349	358
35 000	325	352	358
40 000	325	352	358
50 000	245	287	275
75 000	128	151	154

Note 1 : The gain under the Budget includes the indexing of the taxation and transfer systems and the changes in the property tax refund.

Couple with three children 6-11 One work income	Single-parent family with one child under 6	Childless couple under 65		Single person under 65 living alone
		One work income	Two work incomes	
566	404	388	388	248
583	459	412	412	296
616	593	412	412	61
545	549	102	52	61
548	437	102	102	61
314	314	147	103	118
392	332	172	161	112
392	332	147	162	59
392	332	100	100	59
307	149	100	100	59
182	151	100	100	59

Note 2 : For couples with two work incomes, one spouse earns 60 % of the household income and the other, 40 %.

Offsetting federal policies

The government must introduce compensatory measures to ensure that the federal cuts do not result in the deterioration of Québec's public services.

The **tobacco tax** will be raised on the evening of the Budget Speech and again on January 1, 1991.

The tax on a packet of 25 cigarettes will increase by \$ 0.25 and \$ 0.15 respectively, while the tax on loose tobacco will rise by \$ 1.00 and \$ 0.60 respectively for 200 grams.

This measure will augment government revenue by \$ 133 million in 1990-1991.

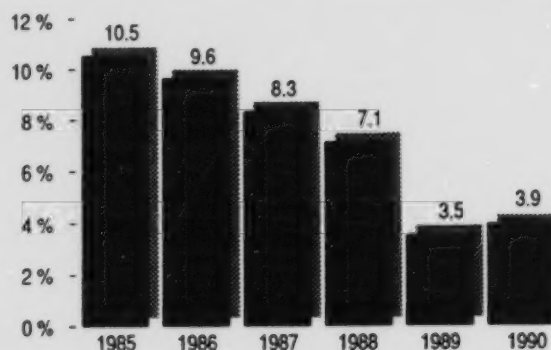
Additional taxation will be applied to **alcoholic beverages**, representing an increase of around \$ 0.05 for a bottle of beer and \$ 0.25 for a bottle of wine or spirits (750 mL). This measure will bring in additional revenue of around \$ 103 million in 1990-1991.

The **business surtax** will be increased : the tax on the profits of large firms will rise from 6.16 % to 6.33 % and that on small and medium-sized businesses from 3.36 % to 3.45 %. The employer's contribution to the Health Services Fund will increase from 3.36 % to 3.45 %. Finally, the general capital tax rate will be raised from 0.50 % to 0.52 %.

This additional contribution will increase the tax burden of businesses by \$ 86 million over a full year.

Taking into account all the measures provided for in the 1990-1991 Budget, the additional **tax burden** of the private sector will be slightly higher in 1990 than last year. However, it will be substantially **lower** than in 1985.

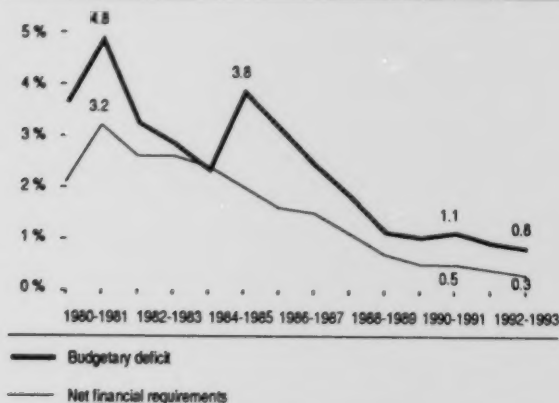
TAX BURDEN OF THE PRIVATE SECTOR
Québec — Ontario differential
(In percentage)



Objective to pursue regarding the deficit

Having opted for sustaining the economy and maintaining a competitive tax system, the government will increase the budgetary deficit by \$ 150 million in relation to 1989-1990, for a total of \$ 1.75 billion in 1990-1991. Next year, the deficit will be lowered to \$ 1.6 billion. It should continue to drop in subsequent years, falling below the level of capital expenditures.

BUDGETARY DEFICIT AND NET FINANCIAL REQUIREMENTS (as a percentage of GDP)



Conclusion

The soundness of the government's budgetary guidelines since 1985 will help to offset the combined effect of federal economic and budgetary policies.

While reducing personal income tax, the government has introduced a series of measures designed to support the economy where assistance is most needed, in particular at the regional level, increase financial support for families and the underprivileged, and invest in manpower training and the quality of the environment.

The fiscal and budgetary policies introduced today are aimed at nothing less than allowing Quebecers to remain in the forefront of economic and social development in the modern world.



1990-1991 BUDGET

Budget Speech and Additional Information

Delivered before the National Assembly
by Mr. Gérard D. Levesque,
Minister of Finance,
on April 26, 1990.



Gouvernement du Québec
**Ministère des
Finances**

ISBN 2-551-14076-5

Legal deposit – 2nd quarter 1990
Bibliothèque nationale du Québec

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Introduction

On September 25, 1989, Quebecers expressed their continued confidence in our government. At that time, we promised a forward-looking program, which we must now carry out.

Our government feels that fiscal and budgetary policy can play a decisive role in achieving our objectives. We must adapt the taxation system and find the appropriate financial resources to satisfy Quebecers' expectations. It is with a feeling of justifiable pride that I will set forth the policies adopted by our government to attain objectives which reflect the aspirations of Quebecers.

Our political program is designed to achieve full economic potential, train qualified manpower, deal with environmental challenges, and foster the development of Québec society. However, in light of the economic slowdown now under way, we must also sustain the economy at a time when it is lagging.

We feel that the government can only play its role fully if public finances are sound. For this reason, as soon as we took power, we set about putting public finances in order. We have achieved remarkable results so far, and now we must sustain what has already been achieved. To ensure that Québec businesses continue to carve out a growing share of world markets, the economy must be able to rely on an efficient public sector. These are the underpinnings of the fiscal and budgetary policy I am submitting today to the people of Québec.

This year, the difficult overall situation obliges us to adopt a more rigorous approach to fiscal and budgetary measures. Canada and Québec are currently experiencing a period of sluggish growth, which lags appreciably behind their potential for expansion. The economic slowdown has been exacerbated by Ottawa's monetary, fiscal and budgetary policies. Moreover, federal transfers are stagnating, mainly as a result of Ottawa's withdrawal from financing health and post-secondary education. These policies are all the more unacceptable as they more directly affect provinces which, like Québec, have yet to achieve full employment. While the Québec government continues to express its disagreement with these policies, it must face the situation without jeopardizing its financial framework. This is the only responsible way to satisfy the expectations of Quebecers.

I. Supporting the Economy

The economic slowdown is one of the most pressing problems we must deal with.

The economy was less vigorous in 1989 than we anticipated. Unfortunately, no appreciable improvement is in sight for 1990. To the contrary, growth will fall below last year's figure. However, with growth of 2 percent in 1989 and 1.3 percent this year, the Québec economy is not in a recession; current performance is a far cry from what it was in 1982. Unemployment is now 9.2 percent, slightly lower than last year.

However, unless monetary policy is relaxed, a more marked slowdown is a distinct possibility. For this reason, changes in interest rates and the exchange rate on the Canadian dollar are major concerns. Regrettably, the Bank of Canada seems insensitive to the effects of its policy on the federal deficit and the economies of the less favoured regions. I would like to assure Quebecers that, as the Prime Minister has done, I will continue to insist that the Bank of Canada adopt a monetary policy better tailored to Québec's interests and better geared to continued economic expansion.

Accelerated public-sector investment

Our government will do everything possible to sustain the Québec economy during a time of slow growth. To this end, it will undertake a major review of public investment.

\$ 279 000 000 earmarked for accelerated
public investment

I am pleased to announce today an accelerated public sector investment plan totalling \$ 279 000 000, most of which will be invested in 1990-1991. These additional investments will be effected in a number of strategic sectors.

The education and higher education sector will receive an additional \$ 131 000 000 to build, expand and repair facilities. Major repair and renovation work worth \$ 76 000 000 will also be undertaken in the health and social services networks. An additional \$ 72 000 000 will be invested in the cultural affairs sector, in collaboration with the municipalities and a number of private-sector promoters, especially to build public libraries and restore and renovate historic buildings.

The accelerated public-sector investment plan I have just announced will give the Québec economy a significant boost. It will result in the creation of roughly 5 000 jobs in the construction and allied industries.

In recent years, the Québec government has earmarked substantial funds for road construction and repairs. However, we must pursue and even intensify investment in this sector. To sustain this ambitious program, a road maintenance and construction plan has been drawn up.

\$ 1 700 000 000 in additional funding
for road works

I am pleased to announce today the implementation of a five-year road investment plan, which will add \$ 1 700 000 000 to the basic budget normally allocated in this realm. The Minister of Transport and Minister of Public Safety, and the Minister for Transport, will shortly announce the nature of the work to be carried out. Special attention has been focused on economic development in all regions of the province.

The administrative and financial performance of the Régie de l'assurance automobile du Québec (RAAQ) is well known, and the agency has accumulated considerable financial surpluses. As a significant portion of the investment will be aimed at increasing road safety, the RAAQ will provide \$ 625 000 000 of the amount over the next five years.

Assistance for business financing and combination

To sustain economic development, we must protect our current economic base. In recent years, the vitality and leadership of Québec entrepreneurs have significantly contributed to boosting output and creating jobs. Despite ongoing success, some businesses are experiencing acute financial distress, attributable to the economic slowdown and high interest rates.

Some of the companies in difficulty have high growth potential. Failing to assist them would be detrimental to Québec's long-term economic interests. These companies need proper financial support to weather the economic slowdown.

\$ 30 000 000 for businesses in temporary
difficulty

The government has decided to add a new phase to the business financing assistance plan which the Société de développement industriel du Québec (SDI) administers. Under the new measure, valid for up to two years, as much as \$ 30 000 000 in risk-sharing loans can be granted, as a last resort, to qualifying businesses.

\$ 15 000 000 for business combinations

Moreover, in light of the globalization of markets, diversification and stiff competition, it is essential for small and medium-sized businesses to adopt strategies to benefit from economies of scale. While big companies usually have the venture capital needed to establish business combinations, the same is not true of their smaller counterparts. I am therefore announcing that the SDI will administer a new program offering risk-sharing loans to foster the establishment of business combinations. The program will have a \$ 15 000 000 budget in 1990-1991 and will satisfy government objectives respecting industrial development and the penetration of foreign markets.

The Minister of Industry, Trade and Technology, who is responsible for the SDI, will announce shortly various procedures related to both measures.

Capital expenditures allocated to hydroelectric development

The government has not waited for the economy to slow before acting ; its initiatives have been much broader. In recent years, we have adopted various measures to restore the confidence of the business community in the Québec economy. Investments planned for 1990, significantly higher in several industries, confirm the pertinence of this approach.

Hydro-Québec : \$ 3 480 000 000
in capital spending

Our government has decided to maximize economic spinoff from the province's hydroelectric potential. Québec governments have for some time sought to use this important natural resource to develop the economy. The same strategic vision has inspired the nationalization of electricity in the 1960s, and the use today of electricity in specialized industries. Next weekend, we will celebrate the 20th anniversary of Mr. Bourassa's initial stewardship. He has contributed largely to these developments by doggedly launching the James Bay hydroelectric project in the early 1970s. Over the past four years, our government has undertaken sustained initiatives, which are bearing fruit today. In 1990, Hydro-Québec's capital expenditures will total \$ 3 480 000 000, \$ 1 015 000 000 higher than the preceding year. These expenditures will sustain more than 29 000 jobs. This expansion of Hydro-Québec's power generation potential and upgrading of the system will satisfy the needs of Québec consumers while maintaining some of the lowest electricity rates in North America.

Because of the government's initiatives, we were able to announce last year the construction of several new aluminum smelters. Because of projects now under way, in particular in Bécancour, Baie-Comeau, Deschambault and Sept-Îles, capital spending in the aluminum sector is enjoying unprecedented growth, and will exceed \$ 1 600 000 000 in 1990, a 60 percent increase over 1989.

Non-residential investment up 13 %
in 1990

These major initiatives are timely indeed, and are directly spurring vigorous investment. In light of government efforts in recent years, which have been strengthened by the measures announced today, the origin of Québec's outstanding performance in non-residential investments is readily apparent. In 1990, such investments will rise nearly 13 percent, above the national average and twice the anticipated rate in Ontario.

Regional development

We must stimulate the Québec economy overall and focus in particular on a number of remote regions where the unemployment rate is higher than elsewhere in the province.

\$ 10 000 000 for the OPDQ

To this end, our government has tabled a regional development action plan, which serves as a framework with respect to our policies in this area. The Deputy Prime Minister, who is responsible for the Office de planification et de développement du Québec (OPDQ), has been asked to implement this plan. To ensure that my colleague has at her disposal the funds necessary to do so, I would first like to point out that the chairman of the Conseil du trésor will take the necessary steps to ensure that the OPDQ can, in the coming year, commit up to \$ 10 000 000 in additional funds.

Additional deductions for mining exploration extended

The development of the mining industry is of vital importance to a number of outlying regions in Québec. Unfortunately, the federal government has just wound up its mining exploration incentive program. Under the circumstances, the Québec mining exploration assistance program is more necessary than ever. I am therefore announcing the continuation in 1991 of the additional deduction which allows investors to deduct up to 166 ²/₃ percent of mining exploration costs incurred in Québec. This will give Québec entrepreneurs and investors a significant comparative advantage. I am convinced that this measure will continue to foster mining, an important regional industry, especially in the Abitibi-Témiscamingue region.

\$ 4 000 000 to spur new mining projects

However, the Chibougamau-Chapais region is experiencing a serious problem resulting from the depletion of mineral deposits. We feel that the best way to help this region is to facilitate the initiation of new mining projects. I am pleased to announce that \$ 4 000 000 will be allocated over the next two years to build new infrastructures. The Minister for Mines and Regional Development will ensure that such infrastructures encourage the opening and development of new mines. We also intend to negotiate the renewal of the federal-provincial mining exploration agreement in the Gaspésie and Bas-Saint-Laurent regions, which will expire on March 31, 1991.

\$ 5 000 000 to develop public and private forests

The forest sector also contributes significantly to regional economies in Québec as it supports thousands of jobs. Moreover, forests are among our most important resources, and we must preserve them. In the last Budget Speech, I announced that \$ 14 000 000 would be granted over four years to the experimental forestry employment program in the Gaspésie—Îles-de-la-Madeleine and Bas-Saint-Laurent regions.

Our forest industry assistance program must be pursued. For this reason, I am announcing that \$ 5 000 000 in additional funds will be granted to the ministère de l'Énergie et des Ressources to develop public and private forests. To further encourage job creation, the allocations mentioned earlier will be used primarily for labour-intensive projects.

\$ 6 000 000 for tourism promotion

Tourism is of vital importance to the Québec economy, as it provides employment for some 270 000 people. In the Montréal region, in particular, promoting tourism is a good way to promote economic development. In some regions, tourism is the leading economic activity. However, to attract foreign visitors or preserve its domestic market, Québec must face increasingly stiff international competition. For this reason, to further develop this sector, the ministère du Tourisme will receive an additional \$ 6 000 000 a year for tourism promotion, nearly 50 percent more than the preceding year. The Minister of Tourism will announce shortly how these funds are to be allocated.

New measures in the farming sector

Farming and the food processing and distribution industry are enjoying rapid growth in Québec. However, in the wake of new trade challenges and increasingly stringent consumer demands, policies have had to be revamped. Consequently, funds will be earmarked for the implementation of a phytosanitary protection policy designed to halve, by the year 2000, the use of agricultural pesticides. Moreover, to better protect consumers, a process of certifying descriptive terms in the food processing industry will be adopted. These measures should stabilize farmers' net income at 1989 levels. However, in the case of beef producers, additional funds will be allocated to enable them to achieve profitability and viability. These and other measures to be spelled out by the Minister of Agriculture, Fisheries and Food should sustain development in a sector which is vital to Québec's regions.

Scarce stocks have created a serious problem in the fisheries sector, which the industry can hardly overcome without government assistance. Over the past two years, many jobs have been lost in this sector; the value of catches and of processed products has dropped precipitously. This situation is very worrisome as the industry is geographically concentrated and occupies a vital place in the economy of Québec's maritime regions.

\$ 50 000 000 for the fisheries industry

Given this sector's importance, I am pleased to announce the implementation of a five-year plan to restructure the Québec fisheries industry. Details of the program, whose budget should total \$ 50 000 000 over the next five years in the form of grants, loan guarantees and share holdings, will be announced shortly by the Minister of Agriculture, Fisheries and Food. Initially, \$ 10 000 000 will be earmarked for the program, starting this fiscal year. I am confident that the integrated policy to be adopted will provide durable solutions to the short-term and long-term problems which the Québec fisheries industry is facing and will ensure development in the maritime regions. I expect the federal government to do its share and provide financial support for our initiatives, as it has done for other regions in Atlantic Canada.

\$ 6 000 000 for seasonal jobs

The Gaspésie — Îles-de-la-Madeleine region is acutely in need of government assistance. The unemployment rate there is the highest in Québec. Several years ago, we set up a seasonal job scheme which has produced very positive results. I am announcing that an additional \$ 6 000 000 will be allocated to the program this year.

II. Training Qualified Manpower

The measures I have just announced will mitigate the damping effect on employment of the economic slowdown and enable businesses to overcome problems engendered by high interest rates. However, the slowdown, which we hope will be short-lived, must not make us lose sight of the importance of pursuing our efforts to bolster long-term economic growth, thereby permanently reducing unemployment.

Since 1985, our government has assiduously pursued this task. In essence, our strategy has focused on enhancing the competitiveness of Québec businesses to enable them to meet the challenges posed by the globalization of markets, freer trade, and technological development.

In each Budget Statement since December 1985, measures have been adopted to this end. We must now embark upon a new phase.

Last year, I indicated in the Budget Speech how important qualified manpower is to economic growth and expressed my concerns in this respect.

Québec businesses, particularly small and medium-sized firms, do not do enough to train workers. Government intervention in this realm has focused primarily on programs for the unemployed rather than upgrading workers' skills.

New tax credit for training expenses

I also noted last year that the government intended to remedy this situation by adopting a tax incentive. In keeping with the overall economic development strategy outlined earlier, I am pleased to announce that incorporated businesses may now benefit from a refundable tax credit with regard to expenses incurred to train their employees. This measure will enable Québec firms to meet competition and help them face the challenges of the 1990s.

The following expenses will be eligible for the new refundable tax credit : expenses incurred to prepare a human resources development plan, the cost of training provided by eligible training establishments, the wages of employees undergoing training when such training occurs during working hours, and travel expenses, if any.

Generally, training eligible for the tax credit must be provided by educational institutions recognized by the ministère de l'Enseignement supérieur et de la Science, and the ministère de l'Éducation, or by private firms which must first be properly registered. The Minister of Manpower, Income Security and Skills Development will shortly make public procedures governing the registration of such firms, in collaboration with the ministère de l'Éducation and the ministère de l'Enseignement supérieur et de la Science, so that they can be ready by early September. Thereafter, training provided by such firms will be eligible for the tax credit, while that provided by recognized educational institutions will be eligible starting now.

40 % tax credit for small and medium-sized businesses, 20 % for big companies

It is important that, from the outset, this measure foster a rapid increase in training activities. For this reason, over the first three years, the tax credit will be 40 percent for small and medium-sized businesses and 20 percent for large companies.

To encourage more rigorous planning, during the first three years of the program, costs incurred to elaborate human resources development plans will be eligible for an even higher tax credit, equivalent to 50 percent or 30 percent, as the case may be. The Appendix on Fiscal and Budgetary Measures, which is an integral part of this Budget Speech, outlines this measure in detail.

\$ 100 000 000 for Québec workers

According to our estimates, this new measure could make as much as \$ 100 000 000 a year available to train Québec workers.

Moreover, to help Québec firms, especially small and medium-sized businesses, finance themselves while awaiting the refund of their tax credits, the value of the latter may be deducted from instalments on income tax and the tax on capital. Companies which have no tax payable in a given year will be eligible for the Société de développement industriel's loan guarantee program.

SDI loans for training expenses related to investments

Financing is hard to obtain from financial institutions when investments are devoted in large part to human resources, because this portion of the investment cannot be offered as a guarantee. The government, through the SDI, can remedy this shortcoming on the capital market. For this reason, we have decided to make training expenses related to such an investment eligible for risk-sharing loans offered by the SDI. Procedures governing the application of this new provision will be unveiled shortly by the Minister of Industry, Trade and Technology.

The adoption of these measures designed to enhance manpower training is a decisive step in helping the government achieve one of its high-ranking priorities, namely the reduction of unemployment, particularly among young people, which has dropped significantly since 1985.

In light of the scope of the problem to be solved and the importance for Québec of qualified manpower, we must do even more. The training needs of Québec workers cannot be entirely satisfied through measures financed by businesses. This is the case when decisions regarding occupational development arise from individual initiatives aimed at increasing geographic or occupational mobility. In this instance, workers often face financial obstacles which the current system of student loans and scholarships cannot overcome.

These constraints must be dissipated to meet the growing demand for qualified manpower. Over the coming year, the ministère des Finances, in collaboration with the government departments concerned, will study various facets of this question in order to ascertain the best manner of eliminating financial constraints which prevent individuals from receiving additional training.

III. Adapting the Taxation System to Foster Québec's Economic Development

Another challenge to be met in the medium term is the adaptation of the taxation system to the Québec economy of the 1990s. In recent years, we have significantly reduced the tax burden of individuals and modified the corporate taxation system to foster economic development. The taxation system must be further improved.

The greatest challenge is to solve problems created by the manufacturers' sales tax reform that the federal government plans to introduce next January 1.

(A) Simplifying consumption taxes

Québec and the other provinces have severely criticized the proposed goods and services tax (GST), for four basic reasons. First, a 9 percent GST posed a serious threat to the economy because of the detrimental effect it would have had on inflation and interest rates. Second, a number of provisions under the proposed reform would have adversely affected the financial situation of the provinces. Third, the GST is a massive incursion into the sales tax field and gives us cause for concern about the balance of taxation within the federation. Fourth, the GST adds a new type of taxation to existing provincial sales taxes, thus making the taxation system appreciably more complex.

Moves to improve the proposed GST

In light of these problems, Québec alone and in collaboration with the other provinces has made numerous representations to the federal government. These discussions have begun to produce results. Reducing the tax rate from 9 percent to 7 percent will remedy problems created by the current manufacturers' sales tax while minimizing the impact of the reform on the economy. Similarly, the reduced rate is less likely to upset the balance between the federal and provincial taxation systems, and between different regions of the country, although stronger guarantees would be desirable. Discussions with the federal government have also progressed on the question of the impact of the GST on the financial situation of the provinces, especially with regard to maintaining the current tax burden of municipalities, school boards, universities, and hospitals. Despite recent advances, the GST is nonetheless a highly unpopular tax which Québec would have preferred to do without.

However, the serious problem of the administrative complexity of the GST persists. The possible coexistence of the federal GST and the provincial consumption taxes creates major problems for Québec consumers and businesses. Very few agents now simultaneously administer the federal manufacturers' sales tax and the provincial sales tax. The proposed GST will bring from 25 000 to more than 400 000 the number of Québec firms called upon to collect the tax on behalf of the federal government. Most of the companies in question would have to administer two schemes which do not tax the same goods in the same manner, apply the tax at different times, remit taxes collected on different dates, and deal with two levels of government. I have been told frequently that such duplication would create a veritable administrative nightmare and result in unproductive expenses which taxpayers and both levels of government can ill afford.

Protecting taxpayers' interests with regard to the GST

Despite these daunting problems, the federal government seems determined to go ahead with the proposed tax. As a result, we must explore with Ottawa possible solutions to the problems mentioned earlier. Our objective is to reduce potential administrative confusion in this realm and, quite simply, to protect the interests of Québec and Québec taxpayers.

In the months ahead, I will have more to say about the situation, to apprise Québec firms as soon as possible of the administrative framework in which they will have to operate beginning next January 1. In accordance with current practices respecting the manufacturers' sales tax, once the new federal goods and services tax is in effect, it will be included before provincial consumption taxes are calculated. This will help simplify the administrative task of merchants, which would otherwise be appreciably complicated by the impossibility of using the shortened accounting methods stipulated in conjunction with the proposed GST.

(B) Other measures to foster economic development

Since our government came to power, it has adopted an array of fiscal measures designed to foster economic development in Québec. At the same time, it has endeavoured to reduce the tax burden of Québec businesses and has encouraged the latter to make innovative, profitable investments, conduct research, and use more efficient technologies. Moreover, various measures have been implemented to facilitate the raising of venture capital, with a view to encouraging Québec entrepreneurship. As a study conducted by a specialized firm and made public last year reveals, the current Québec taxation system is clearly advantageous for profitable, dynamic companies which invest in bolstering productivity and upgrading technology.

This Budget will make other improvements in the taxation system to render it more efficient.

QIFs encouraged to invest in Québec small and medium-sized businesses

The first improvement concerns QSSP investment funds (QIFs), which enable taxpayers to obtain a tax deduction with respect to purchases of the shares of corporations eligible for inclusion in the QSSP. Under current rules, funds collected by the QIF in a given year must be invested in QSSP shares in the same year. This lack of flexibility has prevented QSSP investment funds from participating more extensively in the capital stock issues of developing corporations. Consequently, I am announcing a 12-month extension on the deadline for those who invest at least half their funds in Québec small and medium-sized businesses.

This measure will encourage the pooling of investments by institutional and individual investors and will make it possible to channel more venture capital to small and medium-sized Québec businesses.

Start-up assistance renewed for QBICs

Québec Business Investment Companies (QBICs) are another way of raising venture capital. Since 1985, more than 300 QBICs have been set up; they have invested nearly \$ 55 000 000 in Québec businesses. In the 1988-1989 Budget Speech, I announced the implementation of an assistance program to facilitate the launching of QBICs. The program, administered by the SDI, provides non-taxable grants of the lesser of \$ 5 000 and 50 percent of start-up costs, incorporation fees and the initial investment of the QBIC.

To further encourage the use of this financial instrument, I am pleased to announce that the grant program will be extended for another two years. Moreover, in the case of QBICs which make a public share offering by prospectus or offering memorandum, the ceiling on the grant will be raised from \$ 5 000 to \$ 10 000 starting May 1, 1990.

I would also like to enhance the measure adopted last year to encourage the capitalization of savings and credit unions. The savings and credit union permanent shares savings plan enables individuals to take advantage of a \$ 1 000-a-year tax deduction with respect to purchases of permanent shares issued by savings and credit unions, to a maximum of \$ 3 000. I have been informed that a number of individuals would like to purchase even more shares.

Higher deductions on purchases of permanent shares in savings and credit unions

I am pleased to announce that the annual ceiling on deductions under the plan will be raised from \$ 1 000 to \$ 2 000, and the overall ceiling, from \$ 3 000 to \$ 5 000. Moreover, to ensure that the shares purchased can readily be transferred to RRSPs, I am announcing that a 60-day extension will be granted at the end of 1990 and 1991 to purchasers of the permanent shares of credit and savings unions. As the total capital issued is limited to \$ 250 000 000, this measure will not affect the government's financial framework.

RHOSP : furniture purchases eligible in 1990

In the last Budget Speech I authorized the use of funds accumulated in registered home ownership savings plans to purchase furniture. I am pleased to announce that this measure, a boon to the furniture industry, will be prolonged for one more year, thereby making it possible to spend funds accumulated in the plans.

IV. Meeting the Challenge of the Environment

Quebecers, like the members of other advanced societies, are now striving for a higher quality of life. For this reason, they are greatly concerned about the environment.

As a result, our government is seeking to foster sustained development involving the greatest possible number of economic agents in the province. We advocate a strategy centred on more rigorous environmental monitoring, promoting the quest for more environmentally effective technologies, establishing a permanent coordinating body involving the various concerned parties, and keeping the environment at the forefront when government policy is elaborated.

The financial impact of this policy affects prevention and environmental research; the government will allocate substantial funds to both fields this year.

(A) Increased protection

The funds allocated to the ministère de l'Environnement reflect our concern for environmental protection. When we came to power, in 1985-1986, the department's budget totalled \$ 190 000 000. In 1990-1991, budgetary appropriations will total \$ 470 000 000, an annual increase of nearly 20 percent since 1985-1986.

Water purification in Québec has received the lion's share of these funds, although the department's operating budgets have also risen rapidly, from \$ 79 000 000 to \$ 142 000 000, a 12 percent annual increase, more than twice the growth rate of other government expenditures.

This year, despite the economic climate, we are increasing the ministère de l'Environnement's budget by more than \$ 55 000 000 over last year's probable expenditures. Aside from the additional funds earmarked for the water purification program, a further \$ 15 000 000 is being added to the department's operating budget to intensify prevention measures, step up monitoring throughout Québec, and put greater emphasis on the enforcement of legislation and regulations governing environmental protection.

Pursuing this objective involves taking other initiatives, such as reducing waste at the source, recovering and recycling solid waste and developing markets for recycled products. The government plans to establish an agency for this purpose. The Minister of the Environment will shortly announce the creation of this agency, and details of its mandate and methods of financing it.

Establishment of a waste recovery and recycling agency

(B) Adopting technologies less detrimental to the environment

\$ 50 000 000 in additional funding for the Technological Development Fund, covering environmental research and development

We must also step up environment-related research. Investment in environmental research and development is essential if technological innovation is to be tailored to environmental concerns. I am announcing that \$ 50 000 000 will be added over five years to the Technological Development Fund to create an environmental technological research and development program. These funds will be used to support research projects which companies conduct to develop environmentally sound production technologies and products. They will also be earmarked for studies by research bodies to solve environmental problems.

We are asking Québec businesses to make an appreciable effort to improve the quality of life of Quebecers by providing them with a sound environment. The funds mentioned earlier will help Québec firms find solutions to both ensure our economic development and enhance the environment.

The Minister of the Environment and the Minister of Industry, Trade and Technology will shortly make public details of this new program.

V. Improving Individual Taxation and Assisting Families

During our first mandate, we decisively revamped the personal taxation system to make it more competitive, to encourage Quebecers to work, to help the underprivileged, and to better support Québec families. The main challenge facing us is to maintain what has been accomplished, despite daunting budgetary constraints, and to do even more.

(A) Assisting the underprivileged

To help the underprivileged in Québec society, our government has thoroughly overhauled the Québec income security program. This reform was designed to ensure greater fairness between different categories of households by guaranteeing the resources needed to satisfy basic needs, and to broaden possibilities for beneficiaries to find work.

The threshold on taxable income, i.e. the level below which no income tax is paid, was substantially raised. The most spectacular improvement affects families. For example, a couple with two children which, in 1985, paid tax on income of \$ 10 015 or more now only pays tax on income of \$ 23 234 or more.

However, inflation continues to undermine the purchasing power of consumers; each year it costs underprivileged households more and more to satisfy their basic needs. To avoid impoverishing the underprivileged, we intend to fully compensate them for this loss in purchasing power.

\$ 63 000 000 more to beneficiaries of the income security program

We estimate that the Consumer Price Index will rise by 4.8 percent in 1990. I am therefore pleased to announce that as of January 1, 1991, income security scales in Québec will be raised by 4.8 percent. This indexation will affect, first and foremost, the underprivileged who are able to work. The benefits of those who are unable to work will be indexed automatically, at the same pace as Québec Pension Plan benefits. This 4.8 percent increase will also apply to benefits paid under the Parental Wage Assistance program (PWA), designed to encourage beneficiaries to seek employment, and will provide substantial funds to low-income families. A couple with two children and household income of \$15 000 benefiting from the PWA program will keep \$ 428 a year more in income. All told, \$ 63 000 000 a year will be added to income security expenditures.

(B) Indexing personal income tax credits

Inflation also diminishes the purchasing power of all individuals and families. The taxation system must take into account that their basic needs become increasingly costly and hard to satisfy. For this reason, provisions designed to protect basic needs must be modified accordingly. The adjustment is also designed to ensure the competitiveness of the Québec taxation system.

Tax credits indexed by 4.8 %

To maintain the fairness and competitiveness of the personal taxation system, I am announcing that the following personal tax credits will be raised by 4.8 percent in 1991 : the basic credit, the married person's credit, credits for dependent children, the credit for single-parent families, the credit for persons living alone, and the credit for other dependants. I am also announcing the indexing of family allowances and allowances with respect to young children, and the indexing of the ceilings on child care expense deductions. As a result, the tax threshold on household income will be raised.

\$ 312 000 000 in income tax reductions

The cost of indexing the taxation system will be \$ 312 000 000 a year. Families and low-income earners will benefit most from the tax reduction, as tax credits represent a larger proportion of their income.

(C) Supporting families

We wish to improve the taxation system in another way and provide more substantial support for Québec families. During our first mandate, we adopted very important measures to help parents fulfil their role. Our government feels that population growth is a key to Québec's future.

It is possible to remedy stagnating birth rates through immigration ; an appreciable effort must be made to integrate immigrants into Québec society. For this reason, the budget of the ministère des Communautés culturelles et de l'Immigration will rise by 20 percent this year, in the wake of a 19 percent increase last year.

\$ 1 000 000 000 more financial support for Québec children than in 1985

However, we cannot ensure population growth without properly supporting children in Québec families. In recent years, our government has adopted decisive policies. Financial support for families rose by nearly \$ 1 000 000 000 between 1985 and 1990.

I am pleased to note that our concern for the future of Québec society is shared by Québec families. Births increased by 5.7 percent in Québec in 1989 in relation to 1988, bringing the birth rate up to 1.52 from 1.41. Births of third children were up by more than 13 percent. However, it would be wrong to conclude that we have reached our objectives. For this reason, and despite the prevailing economic climate, we are determined to sustain what our policies in recent years have achieved. Moreover, this Budget will make further improvements to the program we have introduced.

Rapid growth in the child care services budget

During the last election campaign, our government promised to introduce measures to facilitate the reconciliation of parental responsibilities and professional life. This means, first and foremost, making available high-quality child care services. Our government has set up a program designed to create 60 000 new day care places and better finance existing ones. I am especially proud to announce that the appropriations allocated this year to the Office des services de garde à l'enfance will total \$ 152 000 000, more than 20 percent higher than in 1989-1990, and more than double the 1985-1986 figure.

Reconciling parental responsibilities and professional life also involves enabling parents to obtain leave and spend more time with newborn children. We must therefore focus on minimal labour standards and income replacement allowances during maternity leave.

A proposed reform of minimal labour standards is already under study. If federal legislation is adopted, the unemployment insurance program will shortly pay an allowance equivalent to 60 percent of wages for up to 25 weeks starting in the third week of parental leave. The Québec government pays \$ 240 to cover lost income not compensated by unemployment insurance during the first two weeks of leave.

Maternity allowances increased from \$ 240 to \$ 360

To bolster the income of women during maternity leave, I am announcing that as of midnight tonight, Québec allowances will be increased from \$ 240 to \$ 360 during the two weeks when unemployment insurance is not payable. This new measure will provide an additional \$ 6 000 000 a year in assistance.

We must also enhance measures designed to help parents provide for their children. Given the limited nature of our resources, we will focus our efforts on large families, where needs are the most acute.

\$ 6 000 for the third child and subsequent children

I am announcing that the allowance with respect to newborn children for the third child and subsequent children, now \$ 4 500, will be increased to \$ 6 000. The allowance is paid in instalments of \$ 375 per quarter over three years. Now, it will be paid over four years. This measure will cost an additional \$ 19 000 000 a year.

Downpayment Assistance Program : ceiling
raised to \$ 110 000

Harmonious development and stability in the family are contingent upon access to appropriate housing. The Downpayment Assistance Program established two years ago and enhanced last year to make it more accessible to Québec families is operating very smoothly. As of April 12, 1990, over 21 000 families had taken advantage of the program to acquire their first home. To broaden access to the program, I am announcing that the price of an eligible home, including the lot, will be raised from \$ 100 000 to \$ 110 000 for sales agreements concluded as of midnight tonight. This measure represents an additional gain of \$ 2 000 000 for Québec families.

**(D) Impact of measures to enhance the individual
taxation system and assist families**

\$ 408 000 000 for individuals and families

The various fiscal measures, including indexation, in this Budget designed to improve the personal taxation system and assist families will mean an additional \$ 408 000 000 over a full year. Once again, I have avoided increasing personal income tax. Indeed, in this Budget, I have announced tax reductions. I am proud to note that families will benefit most from these measures, as they have been granted \$ 243 000 000.

VI. Increasing Efficiency in the Public Sector

It is essential that we keep public finances in order in the coming years. Our government has successfully met the challenge of putting public finances in order starting in our first mandate. Now, we must ensure that an efficient public sector contributes to Québec's economic development.

The public sector plays a key role in the economy. Québec's success depends to a large extent on its performance. An efficient public sector imposes a minimal, well distributed tax burden, thus enhancing competitiveness, and makes it possible to provide extensive services, as needless expenditures are eliminated. Moreover, an efficient public sector can minimize debt, thus ensuring a secure future for Quebecers. To achieve these objectives, we must see that the federal government fully assumes its responsibilities in fields covered by transfers to the provinces.

I outlined earlier our plan of action with respect to taxation. I would now like to turn to the government's financial position, federal transfers, and expenditures.

(A) Improving the government's financial position

Our achievements in putting public finances in order over the past four years are well known. We have more than halved the deficit and net financial requirements. We have curbed growth in the debt ; it is now growing more slowly than our ability to repay it. A smaller proportion of revenues is now devoted to servicing the debt.

Current account deficit reduced from more than \$ 2 000 000 000 to \$ 270 000 000

As the Appendix on Québec's finances following the Budget Speech shows, these remarkable results must not overshadow what remains to be done. The current account balance, which reflects the portion of current expenditures financed through borrowing, represents the burden passed on to future generations. When we came to power in 1985-1986, the balance showed a deficit of more than \$ 2 000 000 000. Last year, we lowered the current account deficit to \$ 270 000 000, a spectacular turnaround. However, the account is still not balanced and we have not yet begun to eliminate deficits accumulated in the past.

Of course, we could forestall until the early 21st century the elimination of deficits accumulated in the current account since 1976-1977. Doing so seems neither desirable nor fair, as it would lead to a substantial increase in debt service at a time when we must simultaneously offset rising costs in sectors such as health, the environment and manpower training.

Further measures to achieve sound public finances

Our government does not intend to leave such a burdensome legacy to the next generation. In the coming years, we must put public finances completely in order. This first step will involve bringing down the current account balance as soon as the economy picks up again. Second, we must achieve surpluses to eliminate deficits accumulated in the past. The pace at which we proceed will depend on economic growth, and on the impact of federal intervention on Québec's economy and public finances.

(B) Rethinking federal policies

Negative impact on Québec's public finances

In last year's Budget Speech, I denounced the negative impact of federal policies on the provinces' financial framework, especially on that of Québec. There is no need to alter this assessment as it has not, by and large, changed. The federal Budget Speech last February actually exacerbated the deplorable trends I had mentioned earlier.

The federal government is grappling with an extremely serious financial problem, which has led it to look to the provinces for a solution. Every year, it is withdrawing increasingly from programs for which it shares financial responsibility with the provinces, even when it is Ottawa which initially encouraged the provinces to get involved in them. This is an unacceptable procedure. It is, indeed, intolerable when the federal government compels the provinces to comply with so-called national standards when administering these programs.

A \$ 1 300 000 000 shortfall in the 1990-1991 fiscal year

The last cut in Established Programs Financing represents a \$ 221 000 000 loss for the 1990-1991 fiscal year. Cuts in this program in recent years bring the total shortfall in 1990-1991 to \$ 1 300 000 000. To this must be added a series of cuts effected with regard to regional development, legal aid, assistance for young offenders, child care services, and many other programs. An examination of changes in cash transfers which Québec has received reveals the magnitude of the problem. On an accrual basis, such transfers have increased by an average annual rate of only 1.8 percent over the past five years, far below the inflation rate of 4.3 percent. We had to assume the consequences of the debt incurred by the previous government and, apparently, will have to pay for Ottawa's long-standing inability to control the federal deficit.

Offsetting the shortfall

Over the next two years, federal cash transfers could decline in absolute value. Were they to keep abreast of anticipated inflation, we would receive an additional \$ 370 000 000 in revenues in 1990-1991, and \$ 800 000 000 in 1991-1992. Faced with a problem of this magnitude, we are compelled to resort to taxation to cover part of the shortfall.

While examining the sources of revenue which could be used for this purpose, it seemed clear to me that personal income tax could not be touched. It is high enough already and an increase could adversely affect Québec's competitiveness. The sales tax also seems high enough. However, we can scarcely avoid reexamining less essential goods which are subject to a relatively low rate. Indeed, a number of specific taxes have not been raised for a long time, and they are now lower than those in most other provinces. This applies to the tobacco tax, and the tax on alcoholic beverages. If raising taxes on these products helps curb abuse, so much the better for the health of Quebecers.

Taxes increased on tobacco products and alcoholic beverages

I am therefore announcing that the tobacco tax will be raised \$ 0.25 for a packet of 25 cigarettes as of midnight tonight and \$ 0.15 more as of January 1, 1991. An additional taxation measure will be introduced with respect to alcoholic beverages as of midnight tonight, equivalent to \$ 0.15 a litre for beer, and \$ 0.30 a litre for wine and spirits. This represents an increase of about \$ 0.05 per bottle on beer and \$ 0.25 on a 750-mL bottle of wine. Merchants who have on hand as of midnight tonight alcoholic beverages or tobacco products for resale must remit tax on their inventories, using the form provided by the ministère du Revenu. These measures will generate \$ 236 000 000 in 1990-1991.

Despite these increases, the taxes will be generally lower than in most other provinces. For example, the tobacco tax will be the second lowest in Canada, after Ontario. Québec's effective tax rates on beer are still by far the lowest in the country.

Business surtax raised

Since we came to power, the corporate taxation system has become more competitive. Businesses must also do their share. Thus, the 12 percent surtax on business taxes will be increased to 15 percent as of midnight tonight. Over a full taxation year, this represents an \$ 86 000 000 increase in the tax burden of businesses.

Federal policies are undermining Québec's competitiveness

Federal government intervention affects Québec's financial framework in another way. I have frequently stressed the negative impact of Ottawa's monetary policy on the Québec economy. I still maintain that interest rates are needlessly high, that they are threatening economic growth and keeping the exchange rate on the Canadian dollar at a level which is detrimental to competitiveness. This impact should be mitigated by federal fiscal and budgetary policies at least in those provinces which, like Québec, have not yet achieved full employment. Unfortunately, this is not, at present, the case, as revealed by changes in federal transfers which, in recent years, have favoured the affluent provinces. Moreover, the method of reducing the federal deficit reflects Ottawa's lack of concern for regional disparities. Overall cuts in federal transfers more acutely affect the economies of the less affluent provinces insofar as the latter must increase taxes more sharply than the other provinces to offset federal cuts. We find ourselves in a paradoxical situation in which, to curb overly high growth in transfer payments to the wealthiest provinces, Ottawa makes indiscriminate cuts across the board, even for the less affluent provinces.

Rethinking the redistribution of wealth under Confederation

The federal government has the difficult responsibility of ensuring that all regions of the country participate in economic growth. Given that Ottawa must now reduce its economic intervention, there is a grave risk that it will simultaneously curtail its role in redistributing wealth, as it has done in recent years.

The challenge we are facing today is to create new methods of redistributing wealth within the country. Federal intervention must take into account regional needs so that all the provinces are not treated on the same footing, and must avoid encouraging them to spend beyond their means in order to obtain federal funds or comply with overly rigid standards.

Failure to meet this challenge could mean that federalism will perpetuate the stalemate in federal government finances, or that regional disparities will be exacerbated, which is unacceptable. If nothing changes, the less affluent provinces will be drawn further into the vicious circle of high taxation and economic decline.

Québec proposals concerning the renewal of the fiscal arrangements

For this reason, I intend to submit to my colleagues from the other provinces and the federal government concrete proposals to ensure that Ottawa fully assumes its role of redistributing resources in Canada. Renegotiation of the fiscal arrangements, slated to begin shortly, must afford an opportunity to renew economic federalism in Canada, to ensure that we achieve our objectives. Were it impossible to attain such a renewal, it would be all the harder for Québec to keep public finances in order.

(C) Public services tailored to the needs of Quebecers

The need to put public finances in order and the federal policies pursued up until now oblige us to adopt a new approach to managing public spending.

This approach focuses on the need to curb overall spending. Bearing in mind the stagnation of federal transfers, increases in budgetary revenue arising from economic growth do not allow us to deal with the entire automatic increase in expenditures without borrowing or constantly increasing the tax burden.

Given the government's determination to provide Quebecers with quality public services, the role of the public sector in Québec must be redefined. It also means more effectively dividing budgetary and fiscal responsibilities between the provincial and local governments.

Redefining the role of the public sector

To maintain high-quality public services...

Quebecers are perfectly entitled to expect public services of the highest quality. The government intervenes in many sectors, and must decide which ones are essential. This is especially true in the fields of health, social services, and elementary, secondary and higher education, which account for more than 50 percent of public spending, a clear reflection of our government's social concern. This year, the ministère de la Santé et des Services sociaux and the Régie de l'assurance-maladie du Québec will receive \$ 780 000 000 more than last year. The single most important increase, \$ 74 000 000, has been allocated to hospitals and nursing homes to deal with an ageing population and new medical technologies, and to CLSCs to offer better home care services. Funds have also been found to help drug addicts. Government policy in this area could be strengthened in light of the report that the task force on the fight against drugs will submit shortly.

The ministère de l'Éducation and the ministère de l'Enseignement supérieur et de la Science will receive \$ 669 000 000 more than in the preceding year. A reform of the student financial assistance program will mean an additional \$ 47 000 000 in loans and scholarships, thus enabling greater numbers of young people to obtain post-secondary training under more favourable conditions.

Culture is another important sector. In 1990-1991, the ministère des Affaires culturelles will have a \$ 262 000 000 budget, which has increased, on average, 7 percent since 1985-1986. Moreover, the Québec film and television industry has received a boost from the 166 ²/₃ percent tax deduction applicable to Québec productions. In collaboration with the Minister of Cultural Affairs and the Minister of Communications, I will continue to closely monitor this measure. Our objective is to create the most propitious conditions possible so that the film and television industry can obtain the capital it needs to expand and broaden its market.

... and satisfy Quebecers' priority needs...

The priority needs of Québec society are extremely costly. To achieve the leeway we require to satisfy these needs, it is essential to thoroughly review the public sector's role. Because public services are generally free, the government's task is a difficult one, as it must choose among a plethora of demands. Under the circumstances, some activities or services may not be cost effective, thus reducing the resources available to other sectors.

Redefining the role of the public sector means, first and foremost, pinpointing services of limited utility. There are several ways of achieving this end, for example, by reassessing the services or grants offered, tightening eligibility criteria so that only vital needs are satisfied, reorganizing services to trim costs while maintaining efficiency, and making more widespread use of fees for public services. We must attentively examine all of these options in the coming years. I am convinced that the chairman of the Conseil du trésor will successfully carry out this task with the support of Cabinet.

... superfluous expenses must be eliminated and efficiency enhanced

Redefining the role of the public sector in no way obviates the needs of Quebecers in the fields where the exercise is undertaken, but represents a new approach to satisfying such needs. Our government intends to fully assume its responsibilities in making such choices : eliminating less justifiable expenses is the best way to give Quebecers the services they really need.

Decentralizing responsibilities

Maximizing the efficiency of the public sector will, in the future, involve an even more basic operation, that of assigning responsibilities to the level of government best suited to assuming them, bearing in mind the needs of Quebecers.

In Québec over the past 25 years, there has been a pronounced tendency to centralize power. The reform of local taxation in 1980 marked a first step in reversing this trend. At that time, the Québec government adopted a number of measures designed to enhance the power of the municipalities, which were granted a broader taxation field to ensure great autonomy with respect to higher levels of government.

However, the question of the sharing of responsibilities between the provincial and local governments was scarcely broached at the time. Today, we must pursue the matter and ask ourselves which responsibilities are best assumed by the municipalities, school boards and other agencies, in other words, which bodies are best suited to ascertaining the specific needs of the community and satisfying them as efficiently as possible.

Shift responsibilities and make available equivalent resources, following consultations with concerned parties

Two principles must apply. First, any transfer of responsibility must be accompanied by access to equivalent resources. Second, the authorities concerned must be consulted with respect to procedures governing the transfer.

With regard to the recent attribution of increased responsibilities to the school boards, I have already outlined the particularly difficult context in which this Budget has been prepared, exacerbated by the latest federal budget. For this reason, we were unable to consult municipal governments as extensively as we would have liked.

However, we do intend to consult municipal governments at length. The Minister of Municipal Affairs has been asked to initiate discussions in this respect.

— Maintaining school facilities

The maintenance of school facilities is the first service to be decentralized. The Minister of Education has indicated that school board financing will be modified to give the school boards complete autonomy in managing their facilities. Their taxation powers will be increased ; they will be accountable to the taxpayers rather than the government.

Government will pay \$ 38 000 000
of the school property tax increase

The property tax has been selected to this end because it is much less extensively used in Québec than in neighbouring provinces. Shifting the general tax burden to this specific field is justified because it draws more equitably upon various sources of revenue and because it fosters efficiency in the public sector.

Transferring responsibility in this manner to the school boards will mean an average property tax increase of roughly \$ 90 per household. Among low and middle-income families, the increase will be attenuated or eliminated altogether by various government measures designed to help defray housing costs. The housing allowance we introduced this year for beneficiaries of the income security program will cover up to 75 percent of housing costs. Some \$ 3 000 000 will thus be accorded to offset the impact of higher school property taxes. The LOGIRENTE program will cover an additional \$ 1 000 000 of the increase assumed by the elderly. Under the low-rental housing program, 77 000 tenants will not pay higher rents; the various levels of government will absorb a \$ 5 000 000 increase in school property taxes.

However, it is the property tax refund program which will cover the largest part of the increase. To this end, starting in the 1990 taxation year, the ceiling on property taxes eligible for a refund will be increased from \$ 1 050 to \$ 1 150, then to \$ 1 205 in 1991. In this way, a substantial portion of the school tax increase borne by low and middle-income households, totalling \$ 22 000 000, will be absorbed by the government. This amount will be added to the \$ 120 000 000 already paid in the form of property tax refunds to attenuate the regressivity of property taxes. Because of the property tax refund, a couple with two children and an income below \$ 45 000 will pay only 60 percent of the increase, or an average of \$ 54.

Another program already refunds up to 70 percent and 85 percent of municipal and school taxes to farmers and woodland owners, respectively. In other words, the government will assume the greatest share of the increase affecting them, by offering \$ 7 000 000 in assistance. I am pleased to note that the Québec government will compensate \$ 38 000 000 of the school property tax increase.

— *Public transportation*

In the coming months, the government intends to engage in consultations on a project aimed at modifying the financing of public transportation, under which the government would make new sources of financing available to municipalities located within the territory of public transportation authorities. The municipalities would be entirely responsible for the operation of such authorities and the government would continue to help finance their capital expenditures.

Forthcoming consultations with
the municipalities

This transfer of responsibility to the local sector, accompanied by broader access to the taxation field, strikes us as highly desirable insofar as public transportation is an essentially local responsibility. The level of service, working conditions and rates are already established locally. It seems normal and logical that the municipalities assume greater responsibility for operating costs and that they be accountable to ratepayers and users.

The government, through the Minister of Municipal Affairs, will shortly unveil a program of consultations with the municipalities covering this project and other questions of interest to them.

VII. Financial Framework

I will now discuss how the policy directions I have just outlined and the measures I have just announced will affect the government's financial framework. To shed light on the matter, let us first look at the preliminary results of the 1989-1990 fiscal year.

(A) 1989-1990 preliminary results

In 1989-1990, slightly more personal income tax than anticipated was collected. Substantial adjustments with respect to equalization payments for previous years were collected. These positive adjustments more than offset the drop in net earnings from government corporations. Budgetary revenue was \$ 133 000 000 higher than forecast.

Regular expenditures were \$ 50 000 000 higher than anticipated. However, to ensure that beneficiaries of the income security program promptly received their benefits, we decided to pay at the end of March social allowances which would otherwise have been paid on Sunday, April 1. This measure increased expenditures by \$ 183 000 000, bringing the total increase to \$ 233 000 000.

GOVERNEMENT DU QUÉBEC SUMMARY OF FINANCIAL TRANSACTIONS (in millions of dollars)

	1988-1989	1989-1990		
		Budget Speech 1989-05-16	Preliminary results	Change
1. Budgetary transactions				
Revenue	29 794.8	31 018.0	31 151.0	133.0
Expenditure	- 31 408.0	- 32 518.0	- 32 751.0	- 233.0
Deficit	- 1 613.2	- 1 500.0	- 1 600.0	- 100.0
2. Non-budgetary transactions				
Investments, loans and advances	- 669.5	- 740.0	- 579.0	161.0
Retirement plans account	1 634.0	1 370.0	1 196.0	- 174.0
Provision for financing the water purification program	14.9	2.0	4.0	- 2.0
Other accounts	- 325.1	122.0	222.0	100.0
Balance	654.3	750.0	835.0	85.0
3. Net financial requirements	- 958.9	- 750.0	- 765.0	- 15.0
4. Financing				
Change in cash position	20.8	—	33.0	33.0
Change in direct debt	938.1	750.0	732.0	- 18.0
Total financing	958.9	750.0	765.0	15.0

Note: A negative entry indicates a financial requirement and a positive entry, a source of financing. For the change in cash position, a negative entry indicates an increase and a positive entry, a decrease.

Consequently ; the budgetary deficit for 1989-1990 is now expected to reach \$ 1 600 000 000, \$ 13 000 000 less than in 1988-1989.

(B) 1990-1991 financial framework

When the chairman of the Conseil du trésor tabled the estimates in the National Assembly last March 27, the government anticipated spending \$ 35 331 000 000. Bearing in mind the net impact of the fiscal and budgetary measures announced today, budgetary expenditure should total \$ 35 351 000 000.

Spending up by \$ 470 000 000

On a comparable basis, that is, excluding pre-recording of expenditures effected, spending this year is up 6.3 percent over the preceding year. Expenditures increased \$ 470 000 000 over what was forecast last year. Higher inflation and wage settlements are the main cause of this change.

In terms of revenue, we had to cope with two problems. The first one, the impact of the federal budget on the Québec government's financial framework and, in particular, on federal transfers, has already been discussed. The second factor relates to the profits of government corporations.

Prior to the tabling of this Budget, the shortfall in revenue totalled \$ 338 000 000 in 1990-1991 in relation to forecasts in the last Budget Speech. In light of increased spending, we faced a shortfall of \$ 808 000 000. The payment in March of social allowances normally paid on April 1 has reduced the shortfall by \$ 183 000 000. The budgetary and fiscal measures I have just announced will generate additional revenue of \$ 350 000 000.

Deficit will rise to sustain economic growth

Given the economic situation in North America and the scope of the constraint imposed on the economy by federal policies, the government has adopted budgetary and fiscal policies aimed at stabilizing the economy in the short term without jeopardizing its medium-range financial objectives. The budget deficit will be increased from \$ 1 600 000 000 in 1989-1990 to \$ 1 750 000 000 in 1990-1991. Bearing in mind that budgetary revenue will rise by 7.9 percent, it would have been inappropriate to draw additional revenue from the economy thus impeding our economic recovery measures. In 1991-1992, it will be possible to bring the deficit down to \$ 1 600 000 000 ; it should continue to fall subsequently, to levels below capital expenditures.

I feel that this is an appropriate way to attenuate the negative impact of interest rates on output and job creation, while making possible the important fiscal measures announced today designed to foster economic growth and assist workers, individuals and families.

GOUVERNEMENT DU QUÉBEC
SUMMARY OF 1990-1991
FINANCIAL TRANSACTIONS
 (in millions of dollars)

1. Budgetary transactions		
Revenue	33 601	
Expenditure	- 35 351	
Deficit		- 1 750
2. Non-budgetary transactions		
Investments, loans and advances	- 649	
Retirement plans account	1 870	
Provision for financing the water purification program	1	
Other accounts	- 247	
Balance		975
3. Net financial requirements		- 775
4. Financing		
Change in cash position	—	
Change in direct debt	775	
Total financing		775

Note : A negative entry indicates a financial requirement and a positive entry, a source of financing.

The government's net financial requirements will change in about the same way. After dropping to \$ 765 000 000 in 1989-1990, they will increase slightly in 1990-1991, to \$ 775 000 000. However, the reduction initiated in recent years will continue in 1991-1992 ; the figure should reach \$ 500 000 000 in 1992-1993, equivalent to only 0.3 percent of gross domestic product, the lowest level in the past 20 years.

(C) Three-year forecasts

In the coming years, stringent management of public finances must be intensified, so that we can begin repaying debts accumulated in the past, with a view to ensuring the future of the next generation. However, such efforts must be tailored to economic revival.

Given the moderate economic growth anticipated in the coming years and in light of stagnating federal transfers, growth in spending should be kept down even more. Our goal is to limit the increase to 5.6 percent in 1991-1992, and to 5.0 percent in 1992-1993.

This objective imposes constraints and will demand that we pursue our rigorous management of public finances. We will have to reassess the relevance and method of financing several public sector services. The sharing of responsibilities by the provincial and local governments will be discussed with the authorities concerned.

Only then can we respect our commitment to maintain the competitiveness of the Québec taxation system, an essential condition for spurring economic growth and job creation during the 1990s. In this way, we will also promote economic revival and maintain the sound management of public finances that we have achieved.

Conclusion

The Budget I am tabling today has been drawn up in the most difficult economic and financial context of recent years.

North America is experiencing a period of slower economic growth at a time when the Bank of Canada's high interest rate policy and efforts to reduce the federal deficit have combined to dampen economic growth in Canada and Québec.

We are to be congratulated for the efficacy of the budgetary policies we have pursued in Québec since 1985. Today, they enable us to absorb the double shock of federal economic and budgetary policies without panicking. What would a government have done which had not improved its financial position over the past four years, more than halved its deficit, reduced even more its net financial requirements and lowered taxes ?

Instead of tabling a crisis Budget, we are able to present a series of favourable measures which are designed to support the economy, and invest in regional development. Moreover, we have been able to satisfy two basic concerns in a developed society, manpower training and environmental quality, and pursue our efforts to assist families and the underprivileged.

I am convinced that our rigorous management of public finances is entirely sound. We have weathered an economic downturn and yet can continue to invest in our future.

Québec faces formidable challenges. Greater prosperity is the most pressing among them, in a more open world dominated by more powerful industrial, trading and financial blocks. The extent of such prosperity will depend largely upon our ability to penetrate international markets, and is the best way to ensure that the public sector satisfies the legitimate needs of Quebecers.

There is another challenge to be met : making Canada a country in which all citizens live together in pride and harmony. This country has a great deal of potential and Quebecers are ready to fully play their role in it. It is essential for our partners to agree to Québec's entry into the Constitution so that, together, we can tackle the problems facing the entire country.

We must also increasingly devote our energies to improving the quality of life of Quebecers, who are quite rightly seeking communities, workplaces and a society in which they can develop and live harmoniously.

There is no doubt in my mind that Quebecers can achieve all of these objectives. We have vast natural resources, control of considerable financial resources, and abundant, well trained, confident workers. Quebecers are ambitious, creative and hard-working. They have high aspirations and the means to achieve them.

Our government intends to participate fully in this thrust toward the future. The fiscal and budgetary policy which I am tabling today is an integral part of our government's program, which reflects the ambitions of Quebecers. Our goal is to keep Québec in the vanguard of economic and social progress in today's world.

GOUVERNEMENT DU QUÉBEC
BUDGETARY REVENUE
1990-1991 FORECAST
(in millions of dollars)

1. Income and property taxes	
Personal income tax	11 735
Employer contributions to health services fund	2 636
Corporate taxes ¹	1 824
	16 195
2. Consumption taxes	
Retail sales	4 814
Fuel	1 296
Tobacco	651
Meals and hotels	502
Other ²	181
	7 444
3. Duties and permits	
Motor vehicles	483
Alcoholic beverages	100
Natural resources ³	151
Pari-mutuel	22
Other	147
	903
4. Miscellaneous	
Sales of goods and services	264
Interest	386
Fines, confiscations and recoveries	348
	998
5. Revenue from government corporations ⁴	
Société des alcools du Québec	383
Loto-Québec	470
Hydro-Québec	401
Other government corporations	61
	1 315
Total own-source revenue	26 855
6. Government of Canada transfers	
Equalization	3 902
Other transfers related to fiscal arrangements	1 344
Contributions to welfare programs	1 285
Other programs	215
Total Government of Canada transfers	6 746
Total budgetary revenue	33 601

¹ Includes tax on corporate profits, tax on capital and corresponding tax on premiums for insurance companies.

² Includes tax on telecommunications and on electronic advertising.

³ Includes forest, mining and water resources.

⁴ Includes the dividends declared and the change in surpluses or deficits accumulated by government corporations, which are consolidated with a corresponding reevaluation of the investment held by the government.

GOUVERNEMENT DU QUÉBEC
BUDGETARY EXPENDITURE
1990-1991 FORECAST
(in millions of dollars)

Budgetary expenditure by department and agency :

Affaires culturelles	261.8
Affaires internationales	106.3
Affaires municipales	684.7
Agriculture, Pêcheries et Alimentation	682.5
Approvisionnements et Services	56.0
Assemblée nationale	69.6
Communautés culturelles et Immigration	54.4
Communications	118.5
Conseil du trésor	22.7
Conseil exécutif	103.8
Éducation	5 418.2
Énergie et Ressources	507.3
Enseignement supérieur et Science	3 143.1
Environnement	470.5
Finances	4 843.9
Industrie, Commerce et Technologie	322.5
Justice	446.6
Loisir, Chasse et Pêche	223.3
Main-d'œuvre, Sécurité du revenu et Formation professionnelle	2 729.1
Office de planification et de développement du Québec	56.9
Organismes relevant de la ministre déléguée à la Condition féminine	156.7
Organismes relevant du ministre délégué à l'Administration et à la Fonction publique	925.3
Organismes relevant du ministre responsable de l'application de la Charte de la langue française	28.7
Persons designated by the National Assembly	32.9
Régie de l'assurance-maladie du Québec	2 409.4
Revenu	322.3
Santé et Services sociaux	8 567.6
Sécurité publique	733.4
Tourisme	87.6
Transports	2 022.5
Travail	76.5
Provision for bad debts	110.9
Total	35 795.5
Less : • Net lapsed appropriations	440.0
• Change in the provision for losses on investments in shares ¹	24.5
Total expenditure announced in the Estimates	35 331.0
Plus : • Net impact of additional measures announced in the Budget	20.0
Total probable expenditure	35 351.0

¹ Provision created when the accumulated deficit of a government corporation exceeds the cost of the investment in shares held by the government.

**GOUVERNEMENT DU QUÉBEC
NON-BUDGETARY TRANSACTIONS
1990-1991 FORECAST
(in millions of dollars)**

1. Investments, loans and advances**ENTERPRISES OF THE GOUVERNEMENT DU QUÉBEC****SHARE CAPITAL AND INVESTED CAPITAL:**

Société de récupération, d'exploitation et de développement forestiers du Québec (REXFOR)	- 49.6
Société générale de financement du Québec (SGF)	—
Société québécoise d'exploration minière (SOQUEM)	—
Société québécoise d'initiatives agro-alimentaires (SOQUIA)	—
Société québécoise d'initiatives pétrolières (SOQUIP)	—
Other	- 24.3

- 73.9

CHANGE IN EQUITY VALUE OF INVESTMENTS ¹

- 491.7

LOANS AND ADVANCES :

Société immobilière du Québec (SIQ)	—
Société de récupération, d'exploitation et de développement forestiers du Québec (REXFOR)	49.6
Société de développement industriel du Québec	- 30.6
Other	- 34.2

- 15.2

Total enterprises of the gouvernement du Québec

- 580.8

INDIVIDUALS, CORPORATIONS AND OTHERS

- 70.7

MUNICIPALITIES AND MUNICIPAL AGENCIES

2.5

Total investments, loans and advances

- 649.0

2. Retirement plans account

Employer and employee contributions	2 755.0
Benefits and other payments	- 885.0

Total retirement plans account

1 870.0

3. Provision for financing the water purification program ²

1.0

4. Other accounts

- 247.0

Total non-budgetary transactions

975.0

Note : A negative amount indicates a financial requirement and a positive amount, a source of financing.

1 Net amount including the change in the provision for losses on investments in shares.

2 Inflow to this account consists of government contributions for the repayment of the long-term borrowings of the Société québécoise d'assainissement des eaux. Disbursements consist of the payments of the borrowings when they come to maturity.

GOUVERNEMENT DU QUÉBEC
FINANCING TRANSACTIONS
1990-1991 FORECAST
(in millions of dollars)

1. Change in cash position		—
2. Change in direct debt		
New borrowings	2 025.0	
Change in the debt resulting from the amortization of the variation in foreign exchange	— 20.0	
Repayment of borrowings	— 1 230.0	
Total change in direct debt		775.0
Total financing		775.0

Note : A negative amount indicates a financial requirement and a positive amount, a source of financing.



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Fiscal and Budgetary Measures

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1. Economic support

1.1 Accelerated public sector investment plan

Public sector investments

The primary objective of the accelerated public sector investment plan is the stabilization of construction industry employment and activity. In view of this sector's strategic importance, greater public investment will have positive effects on the economy as a whole. The use of public investments for the purpose of economic stabilization has other advantages as well. Investments in infrastructure and equipment will permanently improve public services. In addition, since public facilities are distributed throughout Québec, every region will benefit.

A special program of \$ 279 000 000

To counter the effects of a slowing economy, the government has therefore decided to approve a special public sector investment acceleration program for a total of \$ 279 000 000. The government will share the cost of the program with its partners, the government assuming \$ 221 000 000 of the total and its partners, \$ 58 000 000.

The majority of these additional investments will be realized during fiscal 1990-1991 in order to concentrate the economic impact during the period of slowing activity. However, the program will have no effect on forecast expenditure for 1990-1991 since it involves investments funded by subsidized borrowings whose budgetary impact will be felt only when debt service payments are made.

This public investment acceleration program will have a significant impact on the economy. It is estimated that it will help create or sustain about 5 000 jobs, not only in the construction industry, but also in related activities. Furthermore, it will produce benefits for all regions since a substantial portion of the investments will be realized outside the metropolitan regions of Montréal and Québec City.

ACCELERATED PUBLIC SECTOR INVESTMENT PLAN (in millions of dollars)

	Government	Partners	Total
Health and social services sector	76	—	76
Education sector	78	15	93
Higher education and science sector	35	3	38
Cultural facilities	32	40	72
Total	221	58	279

Five-year road investment plan

In recent years, the Québec government has allocated substantial sums for road construction and maintenance. Nonetheless, investment in this sector must be maintained and even stepped up over the next few years to prevent deterioration of roads and structures.

A five-year investment plan of almost \$1 700 000 000 is therefore being initiated for road construction and maintenance. This will be in addition to the basic budget of \$ 867 000 000* allocated in 1990-1991. It includes indexation of this basic budget as well as additional funding for each year of the plan.

\$ 1 700 000 000 for road construction and repair

The 1990-1991 Estimates include an amount of \$153 000 000, bringing the roads budget to \$ 1 020 000 000 for this fiscal year. The following additional amounts will be added to the indexed basic budget in subsequent years : \$ 202 000 000 in 1991-1992, \$ 300 000 000 in 1992-1993, \$ 320 000 000 in 1993-1994 and \$ 340 000 000 in 1994-1995.

FIVE-YEAR ROAD INVESTMENT PLAN (in millions of dollars)

	Indexing of basic budget ¹	Additional investment	Total additional expenditure
1990-1991	—	153	153
1991-1992	35	202	237
1992-1993	71	300	371
1993-1994	108	320	428
1994-1995	147	340	487
Total expenditure for five-year plan			1 676

¹ Assuming indexation of 4 % from 1991-1992.

The investments under this plan will contribute to improving safety for all road users. Accordingly, part of the funds required to finance these investments will come from the Régie de l'assurance automobile.

The improved record of Québec drivers in terms of road safety and the favourable trend in the costs of the public automobile insurance plan have enabled the Régie de l'assurance automobile to generate, over and above the actuarial reserve required to meet its liabilities, a stabilization reserve which, at December 31, 1989, amounted to more than 40 % of the Régie's actuarial reserve.

* Excluding the supplementary funding and other transfers authorized during the year, as well as a non-recurring amount of \$ 70 000 000 that was allocated to implement the findings of the Middlemiss report, the basic budget allocated to the road network amounted to \$ 832 000 000 in 1989-1990. As part of the program review for fiscal 1990-1991, this basic budget was raised to \$ 867 000 000.

A portion of this reserve, i.e. \$ 625 000 000, will be used to finance the five-year road network investment program, with \$ 150 000 000 allocated for 1990-1991. The Régie's financial health will be protected by ensuring that its payments for capital spending on road safety do not reduce the amount accumulated in its stabilization reserve to less than 20 % of its actuarial reserve.

1.2 Assistance for business financing and combinations

Business financing assistance program

\$ 30 000 000 available for loans to businesses in temporary difficulty

The current situation of slowing economic activity together with high interest rates and a strong Canadian dollar relative to the US dollar is causing temporary difficulties for businesses whose financial prospects are otherwise fundamentally sound. This is particularly true for their working capital. To help such businesses, the Société de développement industriel du Québec's (SDI) manufacturers financing program will be altered and additional funds allocated to the program.

The SDI will now provide assistance in the form of a risk-sharing loan at the market rate whose repayment will depend on the results of the business. No principal and interest repayment will be required in the first year.

An amount of \$ 30 000 000 will be added to the SDI's usual authorized envelope for risk-sharing loans to enable it to assist businesses experiencing difficulties as a result of current economic conditions. The SDI will take steps to enable businesses to take advantage of this program without delay.

Business combination assistance program

Many sectors of Québec's economy are characterized by a large number of small businesses and production units. Since the market is increasingly expanding to embrace the continent, it has become imperative to encourage businesses to combine in order to give rise to more competitive firms.

\$ 15 000 000 available for assistance for business combinations in 1990-1991

To promote the financing of combinations of small and medium-sized businesses, the SDI will implement a specific program. It will provide assistance in the form of risk-sharing loans. Financial support provided by the SDI will cover the cost of purchasing new and existing assets, as well as shares and additional working capital requirements. Access to the program will be limited to companies with assets under \$ 25 000 000. For this purpose, the SDI will have an additional envelope of \$ 15 000 000.

The Minister of Industry, Commerce and Technology will shortly release the details of these two programs.

1.3 Regional development

Office de planification et de développement du Québec

To help implement the government's regional development action plan, an additional \$ 10 000 000 will be granted to the Office de planification et de développement du Québec for new commitments in this area.

Extension of additional deductions for exploration expenses incurred in Québec

In recent years, the continuation and improvement of tax incentives for the resource exploration industry have contributed to regional economic development by encouraging, by means of flow-through shares, the financing of exploration companies that do not earn profits from resource operations.

At present, an individual is entitled, in addition to the basic deduction related to resource exploration expenses, to a further deduction of 33 $\frac{1}{3}$ % for certain mining, oil or gas exploration expenses. In addition, to reflect the higher risk of the initial mining exploration stage, a supplementary deduction of 33 $\frac{1}{3}$ % has been introduced for certain surface mining exploration expenses. These deductions apply to expenses incurred in Québec before January 1, 1991, subject to the 60-day period stipulated in the tax legislation.

Tax incentives extended

In view of the importance of continuing to provide the support this sector of Québec's economy needs, existing tax incentives for exploration expenses incurred in Québec will be extended for another year.

166 $\frac{2}{3}$ % mining exploration deduction

Individuals may continue to claim deductions equal to 133 $\frac{1}{3}$ % for certain mining, oil or gas exploration expenses, and equal to 166 $\frac{2}{3}$ % for certain surface mining exploration expenses incurred in Québec before January 1, 1992 by exploration companies that do not earn resource operations profits, subject to the 60-day period stipulated in the tax legislation.

In addition, to further reduce the risk inherent in resource exploration for the investor, the additional and supplementary deductions together with the basic deduction for resource exploration expenses incurred in Québec will continue to be excluded in calculating cumulative net investment losses. The amount of capital gains eligible for the individual's capital gains exemption will not be reduced by the resource exploration expense deductions he has claimed.

Furthermore, the inclusion of these additional and supplementary deductions in the Québec strategic economic investment account is maintained.

The additional assistance stemming from the extension of these measures amounts to \$ 13 000 000 for the resource exploration industry, for a full taxation year. Total assistance, including the basic 100 % deduction, consequently amounts to \$ 49 000 000 for a full year.

Assistance for the mining industry in the Chibougamau-Chapais region

An amount of \$ 4 000 000 will be spent over the next two years to the Chibougamau-Chapais region, which has been hard hit by the depletion of its mines. The funds will be used for infrastructures to promote the opening and development of new mines.

Development of public and private forests

The forest sector makes a significant contribution to the economy of Québec's regions. It generates thousands of jobs and many municipalities depend on it directly. The forest is one of Québec's most important natural resources, and it must be protected. In this regard, the development of public and private forests plays a crucial role.

Development work (ground preparation, seedling production, seed management, etc.) is necessary to achieve the objectives of forest regeneration. Additional funding of \$ 5 000 000 will therefore be made available in 1990-1991 to the ministère de l'Énergie et des Ressources for the development of public and private forests.

To further promote job creation, while generating a level of economic activity that will be of particular benefit to the regions, this budgetary envelope will be used primarily for the most labour-intensive work.

Tourism promotion assistance

The tourism industry makes a significant contribution to Québec's economy. More specifically, it is the main source of economic activity in certain regions. However, it is necessary to intensify Québec's tourism promotion efforts. Consequently, additional renewable funding of \$ 6 000 000 will be granted, beginning this year, to the ministère du Tourisme for this purpose.

Fishing industry restructuring plan

The fisheries sector is currently in serious difficulty as a result of dwindling stocks. Over the past two years, the industry has lost many jobs in Québec. The value of landed catches and processed products has also fallen substantially. The government must therefore take action to restructure this industry, which is geographically concentrated and plays a vital role in the economy of Québec's maritime regions.

The government will implement an integrated plan, the details of which will be announced shortly by the minister responsible, with funding of \$ 50 000 000 over the next five years. The industry will have access to these financial resources in the form of subsidies, loan guarantees and interests in certain projects. The aim will be to bring lasting solutions to the sector's problems and to ensure the development of the fishing fleet, processing plants and aquaculture. Additional funds of \$ 10 000 000 will be allocated to the contingency fund in fiscal 1990-1991 for this purpose, to be transferred to the ministère de l'Agriculture, des Pêcheries et de l'Alimentation as the various projects under this program take shape.

Seasonal employment program for workers in Gaspésie — Îles-de-la-Madeleine

Unemployment continues to be a serious problem in the region of Gaspésie — Îles-de-la-Madeleine. For several years, the government has devoted considerable effort to improving the situation, particularly through a special job creation program. To continue these efforts, additional funding of \$ 6 000 000 will be allocated to this program this year, with the ministère du Loisir, de la Chasse et de la Pêche receiving \$ 3 000 000 and the ministère des Transports, \$ 3 000 000. These amounts will be used to create a substantial number of jobs to carry out maintenance and repairs on recreation, tourist and transportation facilities.

2. Qualified manpower training

2.1 An essential initiative

There is a broad consensus to the effect that, over the next decade, the successful economies will be those that can draw on qualified manpower. The reform of vocational education at the secondary level and the quality of the technical and professional education provided by colleges and universities will continue to produce a pool of highly qualified workers for business. However, the accelerated rate of technological development and the adaptations arising from free trade, particularly with the United States, require that employed workers' qualifications be improved.

The government's economic strategy for the past five years has placed the emphasis on improving the competitiveness of businesses to enable them to meet the challenges of market globalization, free trade and technological development. The tax system has been made competitive once again and tax measures have been introduced to stimulate research and development, accelerate the rate at which new technology is introduced and support entrepreneurship by providing greater access to venture capital. To reinforce this strategy, it is appropriate to take action to promote investment in manpower training.

Up to now, government intervention in the area of manpower has focused essentially on income support programs such as social aid and unemployment insurance, rather than on active measures to improve the skills of employed workers. Of the total budgets allocated to manpower by the federal and Québec governments, only 1.5 % is earmarked for training of employed workers.

Amounts invested by businesses in Québec for training are clearly insufficient. Training expenditures are estimated at 0.3 % of payroll in Québec, 0.5 % in Canada and 1.4 % in the United States.

Therefore, to promote accelerated economic development in Québec, resulting from the benefits of a skilled labour force, the government will use tax measures to encourage investment by incorporated businesses in employee training. This new policy is consistent with the measures introduced in recent years whose ultimate objectives are to reduce structural unemployment and improve the standard of living of workers by supporting the efforts of businesses to become more competitive.

The financial resources businesses allocate to upgrade the skills of their human resources yield a return and carry risks in the same way as investments in capital assets and innovation. However, a number of factors can explain why companies hesitate to invest in training their employees. There are special difficulties in borrowing to finance such an investment since it must be secured by other assets of the business. In addition, part of the return on a company's investment in training its employees can accrue to its competitors because of the mobility of workers.

The government must therefore act to change these conditions that lead businesses to underinvest in human capital. The tax system has been chosen because it offers advantages over subsidy programs when the government's action is designed to deal with a problem common to all businesses. In addition, companies have on many occasions indicated that they prefer this approach for reasons of simplicity and speed of response.

Businesses provide the most appropriate context for assessing training needs that arise from decisions concerning expansion, redeployment, technological innovation or organizational changes. They are in the best position to assess their needs and to make cost-effective investment decisions. By providing tax assistance tied to investment in manpower training, the Québec government wants to assist businesses to meet the challenges of the 1990s by providing them with an additional tool to satisfy the demands of competition.

2.2 The refundable manpower training tax credit

In order to stimulate investment by incorporated business in human capital by reducing the costs of training activities, a refundable tax credit is being introduced for eligible training expenses incurred by a corporation.

For this purpose, in general, eligible training expenses are those related to a business operated in Québec and which do not cause a taxable benefit to be included in the calculation of the income of the employee in whose regard they are incurred. Eligible training expenses consist of the following three components :

- the cost of a human resources development plan (HRDP) ;
- training costs, i.e. the cost of courses purchased from an eligible training establishment and certain travel expenses ; and
- the wages paid to an employee when the training activity takes place during normal work hours.

Eligible training establishments generally include recognized educational institutions in the public and private networks as well as private training corporations registered with a Commission de formation professionnelle (CFP).

Increased tax credit for small and medium-sized businesses

Since the risk incurred by small and medium-sized businesses is generally greater and their resources available for investment in human capital are more limited than those of large companies, the rates of the refundable manpower training tax credit will be higher in their case.

Increased tax credit for purchase of a human resources development plan

The rates will also be higher, for all corporations, for expenses involved in purchasing an HRDP in order to encourage businesses to further plan their training activities. The rates of the refundable tax credits will be 30 % of the cost of purchasing an HRDP and 20 % of other training expenses in the case of small and medium-sized businesses, and 20 % and 10 % respectively in the case of a large corporation.

Higher tax credit during first three years :
50 % and 40 % for small and medium-sized businesses
30 % and 20 % for large corporations

Given the small amounts invested by Québec businesses in manpower training, it is important that this new tax measure produce the desired incentive as soon as it is implemented. To do so, the rates of the refundable tax credit will be higher for the first three years following its introduction. They will be raised by 20 percentage points for eligible training expenses incurred in 1990, 1991 and 1992 by small and medium-sized businesses and by 10 percentage points for such expenses incurred during the same period by large companies. Businesses will be entitled to claim the credit at these higher rates only if eligible training activities initiated during this period are completed before 1993. In addition, the HRDP must have been purchased before that year.

For the first three years of application, the new refundable tax credit may therefore cover up to 50 % or 30 % of the cost of an HRDP, depending on whether a small or medium-sized business, or a large company is involved. The rates of the refundable tax credit applicable to other eligible expenses will reach 40 % and 20 % respectively.

REFUNDABLE MANPOWER TRAINING TAX CREDIT (percentage rate)

	HRDP ¹	Training costs and employee wages
Basic rate		
Small and medium-sized businesses ²	30	20
Large businesses	20	10
Additional rate for the first three years		
Small and medium-sized businesses ²	20	20
Large businesses	10	10
Total for the first three years		
Small and medium-sized businesses ²	50	40
Large businesses	30	20

1 Human resources development plan.

2 Corporation with assets of less than \$ 25 000 000, or whose net equity does not exceed \$ 10 000 000.

The new refundable manpower training tax credit will substantially reduce the net cost and break-even point of such an investment for businesses that undertake training activities, and in so doing diminishes the risk inherent in this type of activity. The break-even point simultaneously reflects the effect of taxation on costs and revenues and is defined as the present value of before-tax revenue needed to recover the net cost of such a manpower training investment. The lower the break-even point, the greater the incentive for the business to undertake training activities, since the return needed to recover its costs is lower.

**NET COST AND BREAK-EVEN POINT OF A \$ 100 EXPENDITURE
FOR MANPOWER TRAINING**
(in dollars)

	Small and medium-sized businesses eligible for the SBD ¹		Large manufacturing businesses	
	Before measure	After measure	Before measure	After measure
Eligible expenses ²	100.00	100.00	100.00	100.00
Training tax credit ³	0.00	40.00	0.00	20.00
Tax savings resulting from the deduction ⁴	16.29	11.15	30.16	25.40
Break-even point	100.00	58.35	100.00	78.19
Net cost	83.71	48.85	69.84	54.60

1 Small business deduction.

2 Expenses other than for the purchase of an HRDP.

3 Expenses incurred before 1993.

4 Rate in force on July 1, 1991, that is, when the Canadian tax reform has been completed.

Taking the refundable manpower training tax credit into account, the cost of a \$ 100 investment in manpower training for a small or medium-sized business is reduced from \$ 83.71 to \$ 48.85 in Québec. The net cost for a large manufacturing company will amount to \$ 54.60 compared to \$ 69.84 before the new tax credit.

2.3 Application

General eligibility criteria

Eligible corporations

In general, any corporation that, for a taxation year, carries on a business in Québec and has a place of business there is eligible for the refundable manpower training tax credit for that year. However, corporations exempt from income tax cannot claim the refundable credit. Such is also the case for corporations on which the effect of the tax system is to exempt them from income tax. However, this restriction will not apply to new corporations covered by the three-year tax holiday. Furthermore, a corporation will be ineligible if it is a corporation, commission or association at least 90 % owned by the federal or a provincial government, a municipality or if it is a wholly owned subsidiary of such corporation, commission or association.

In addition, the corporation's activities must consist almost exclusively in operating, throughout the taxation year, a business other than a designated investment business or a personal services business. Designated investment businesses include a business whose main goal is to earn revenue from property, unless it employs more than five full-time employees throughout its taxation year.

Small and medium-sized businesses that enjoy the higher tax credit rates are corporations with assets under \$25 000 000 or net equity of at most \$10 000 000. For this purpose, the corporation's assets and its net equity together with those of any associated corporations will be taken into account, along with other criteria developed for this purpose to determine the eligibility of a corporation for the 40 % scientific research and experimental development tax credit for wages.

Business-related training expenses

At present, reasonable training expenses are deductible in calculating the income of a person who carries on a business in Québec. However, training expenses and the related costs give rise to a taxable benefit for the employee when the expense is incurred in regard to the employee's personal or living expenses. Generally, tuition fees paid or refunded by the employer are considered a taxable benefit for an employee when the studies are of more benefit to the employee than to the employer or when they are not undertaken at the request of the employer.

Training expenses paid or refunded by an employer that may entitle the corporation to a refundable manpower training tax credit are those related to a business carried on in Québec by an eligible corporation and that do not give rise to a taxable benefit for the employee. Such expenses that constitute a taxable benefit for the employee will therefore not be eligible for purposes of the refundable manpower training tax credit, even if they are otherwise eligible for deduction in calculating the employer's income.

This will also apply to training expenses incurred by a corporation for one of its shareholders, who is not a specified shareholder, when he is also an employee of the corporation, if the result is a benefit whose amount or value must be included in the calculation of his income as a shareholder.

Eligible training activities

Training costs eligible as training expenses generally include amounts paid to an eligible training establishment and those paid to cover the travel expenses of employees during training, provided they stem from eligible training activities.

Eligible training activities, except those explicitly excluded, are those given in the form of a course purchased from an eligible training establishment. A course involves learning a subject by following an established program and includes the teaching of theoretical knowledge together with, when required, practical applications that do not correspond to the employee's usual duties. Distinguishing between an activity in the form of a course and one that cannot be qualified as such depends on the facts of each case.

When training activities are provided at the workplace by a registered private training corporation, the company must first obtain authorization from a CFP before the expenses can be considered eligible for the refundable manpower training tax credit. This step is not required when the training is provided away from the employer's establishment or that of a related person.

The activities listed below are explicitly excluded from eligible training activities :

- symposia, conferences, seminars, conventions and other activities not given in course form ;
- any training activity designed mainly to increase selling skills for goods or services ;
- distance education, such as correspondence courses ;
- training resulting from a requirement of a business to comply with any legislation or regulation ; and
- any training required by a professional corporation as understood in the Professional Code, training provided by or on behalf of an employer or union association or other similar association, and which is designed for a member of such a corporation or association or a person who is in the process of becoming such a member.

Eligible employees

To qualify for the refundable tax credit, a training expense must be incurred for an eligible employee who reports for work at an establishment of the employer located in Québec. For this purpose, an employee is eligible provided his usual work week, as stipulated in the employment contract, is at least 15 hours, and he is not, at any time in the corporation's taxation year, a specified shareholder of the corporation. Specified shareholders include a taxpayer who, at any time during the corporation's taxation year, owns at least 10 % of the issued shares of any class of the share capital of the corporation or of any other corporation related to it. This definition also includes a person who is related to this taxpayer or a group of related persons that includes this taxpayer. When an expense is incurred for a group of persons including both eligible and ineligible employees, the portion of such expense that relates to the eligible employees entitles the taxpayer to the refundable tax credit.

To ensure the integrity of the refundable manpower training tax credit, it will not be granted for a training expense incurred for an employee, when it is reasonable to consider that one of the main reasons why the person has become an employee working at an establishment of the corporation located in Québec, is to enable the corporation to claim the refundable manpower training tax credit for this employee. In addition, no refundable manpower training tax credit will be granted for an employee when it is reasonable to consider that his conditions of employment have been changed mainly to take undue advantage of the tax credit.

Requirement to deal with an entity at arm's length from the business

Furthermore, a training expense will be eligible for the refundable manpower training tax credit provided the amount of such expense is paid to a person who is not related to the corporation or related to a specified shareholder of the corporation.

Purchase of a human resources development plan

An HRDP is a document that represents the end result of a process designed to identify the training needs of a business and decide on the action to be taken to satisfy the medium-term needs of the business.

In order to qualify, an HRDP must be purchased after August 31, 1990 and its acquisition cost will be eligible, up to \$ 10 000. However, a business may only claim a credit for the purchase of an HRDP once every three years. For this purpose, a period of 36 months must have elapsed before an amount paid to purchase an HRDP can again entitle the taxpayer to the refundable manpower training tax credit.

Furthermore, the HRDP must be prepared by a human resources development consultant or firm registered as such with a CFP or by a recognized educational institution, and filed with a CFP, which will issue a registration certificate for tax purposes. Human resources development consultants or firms must renew their registration annually, and pay the required fees.

When the same HRDP is completed for more than one corporation, the amount eligible for each of them must correspond to a reasonable portion of the price of the HRDP. Each of these portions is subject to the \$ 10 000 limit and to the conditions indicated in the preceding paragraphs. Depending on the portion of the price of the HRDP attributed to it, each corporation can claim a tax credit for an amount equivalent to what it would have obtained had it purchased the HRDP itself.

Training costs

Training costs include the price of courses and related expenses incurred with an eligible training establishment, as well as eligible travel expenses. More specifically, the eligibility of such costs is not conditional on the completion of an HRDP.

Course purchases and related expenses

To be eligible as a training cost, course purchases and related expenses must be reasonably attributable to training and paid directly to an eligible training establishment. Amounts invoiced generally relate to the preparation and adaptation of training content, the organization of training activities, tuition and registration fees, rental of premises and equipment, purchase of teaching material required for training, including, in particular, books, work books and other school supplies, as well as the remuneration and travel expenses of the instructors. Moreover, training expenses eligible for the refundable manpower training tax credit will be reduced by any benefit other than what is reasonably attributable to training which the corporation, an employee or any other person has received or is entitled to receive in return for an amount paid to this establishment.

— Eligible training establishments

Eligible training establishments include secondary level establishments under the authority of the ministère de l'Éducation, those declared to be of public interest or recognized for funding purposes by the ministère de l'Éducation and those recognized by the ministère de l'Enseignement supérieur et de la Science for purposes of loans and scholarships under the student financial assistance plan.

Furthermore, private training establishments that have been issued a permit by the ministère de l'Éducation or the ministère de l'Enseignement supérieur et de la Science are also recognized as eligible training establishments provided they offer vocational training programs approved by these departments. Eligible training establishments will therefore include, for instance, all Québec universities, all CEGEPs in the public network, all private establishments offering college level courses declared to be of public interest or recognized for funding purposes, as well as certain post-secondary institutions in regions bordering Québec and certain establishments in Canada or other countries, provided the courses are part of study programs not available in Québec and recognized for the purposes of the student financial assistance plan.

However, private establishments that have been issued a permit by the ministère de l'Éducation or the ministère de l'Enseignement supérieur et de la Science, but which do not offer vocational training programs approved by these departments, are not considered eligible training establishments.

— *Registered private training corporations*

The notion of eligible training establishment will be extended to specialized firms offering training services to businesses. To be eligible, such firms will have to satisfy certain conditions and be registered with a CFP as private training corporations.

For this purpose, private training corporations will be divided into three categories : specialized training corporations, consulting firms offering training services and businesses producing goods and services that provide courses. To be eligible, these training companies will, first and foremost, have to be incorporated and show that they have the resources necessary to provide quality training. Individuals carrying out training activities on their own behalf or through a firm that is not incorporated will not be allowed to register.

The ministère de la Main-d'œuvre, de la Sécurité du revenu et de la Formation professionnelle, in cooperation with the ministère de l'Éducation and the ministère de l'Enseignement supérieur et de la Science, will establish the criteria for registration and disqualification of private training corporations. So that the registration process can be undertaken as soon as possible, the Minister of Manpower, Income Security and Skills Development will soon issue a press release outlining the terms and conditions for registration and inviting interested corporations to apply to a CFP.

At the completion of the initial registration period, ending September 1, 1990, firms that have been registered by a CFP may begin to carry on their business as registered private training corporations and firms that subsequently wish to qualify may do so with a CFP, according to the stated criteria. Registered private training corporations will be required to renew their registration annually and will be charged fees for the opening of their file, registration and renewal of their registration each year.

Training abroad

It may also happen that a business must make use of resources other than those of an educational institution or a specialized training corporation. In particular, this may occur during a company's start-up phase or when it undertakes a process of modernizing its production techniques that requires a transfer of technology. Under such circumstances, it often happens that the only training resources available are provided by companies such as a manufacturer of equipment located outside Québec, which cannot be considered eligible training establishments or private training corporations.

To have such expenses recognized as eligible for the tax credit, an application for validation of the proposed training activities must be forwarded to a CFP. This validation will render subsequently incurred training expenses eligible for the refundable tax credit, provided they satisfy the conditions stated elsewhere, except for the requirement that expenses be incurred with an eligible training establishment.

Eligible travel expenses

Apart from the general eligibility conditions mentioned above, travel expenses, including meals and lodging, are eligible provided they are reasonable and the following conditions are satisfied :

- the expenses must relate to an eligible training activity and be incurred for an eligible employee ;
- the employer's establishment where the employee normally reports for work and the place where the course is given do not lie within the same municipality or metropolitan region ; and
- the distance between the employer's establishment where the employee normally reports for work and the place where the course is given must be at least 40 kilometres.

Travel expenses may include costs, including food and drink, for which, under the tax system, the deduction is limited to 80 % of the lesser of the amount actually paid or payable and the amount it would be reasonable to pay under the circumstances. In such cases, the amount eligible for the refundable tax credit is equal to the amount eligible for deduction from income.

Wages paid to employees during training

Wages paid to employees during training make up a large part of total training expenses. To fully support the efforts of businesses, wages paid to eligible employees during their training period will entitle the taxpayer to the refundable manpower training tax credit when the training activity takes place during their normal working hours.

For this purpose, an employee's wages must be expressed on an hourly basis, taking into account the normal length of the work week. The amount eligible as wages cannot exceed the lesser of an hourly wage rate of \$ 30 and the income from an office or employment, excluding directors' fees, tips and all fringe benefits to be included in the calculation of income from an office or employment, including those relating to an employee's personal or living expenses, loans granted to an employee by an employer and the use of an automobile.

Commissions of any type paid to certain employees during training cannot be considered to relate to the time spent acquiring or updating knowledge, and must not be included in wages entitling the taxpayer to the tax credit. This also applies to the portion of wages paid to an employee as a performance bonus or premium.

To claim this refundable tax credit on wages paid to employees during training, control rules will be established. In particular, the business must obtain a certificate issued by a recognized training institution or registered private training corporation indicating when the course took place and its duration. In addition, a form certifying that an employee participated in the course must be countersigned in all cases by both the employee and the employer, as well as by the private training corporation when the training is supplied by such a corporation, and by a recognized training institution when training activities are provided in the workplace by such an institution. These requirements will also be imposed when training is provided outside Québec by a corporation that is not a recognized establishment or a registered private training corporation.

When, for a taxation year of the corporation, the total duration of training activities exceeds 180 hours for a given employee, this duration will be limited to 180 hours for purposes of eligibility for the tax credit for wages paid to such employee. This limit must be reduced proportionally when the corporation's taxation year is less than 52 weeks.

Refundable manpower training tax credit non-taxable

Like the refundable tax credits for research and development, the refundable manpower training tax credit will not be subject to Québec income tax. Training expenses incurred by businesses will therefore remain fully deductible, regardless of the credits earned.

Moreover, some subsidy programs enable the business to finance a significant part of its training expenses. Under such circumstances, the expense eligible for the refundable tax credit will be reduced by any amount the corporation receives, is entitled to receive or may reasonably expect to receive in this regard.

In the same vein, when a corporation has claimed or is entitled to claim a Québec tax credit other than the refundable manpower training tax credit for an expense, the same expense cannot also be eligible for the refundable manpower training tax credit. In particular, this applies when a training expense is also eligible for a tax credit for scientific research and experimental development. The corporation will have to choose which credit it will claim. When a corporation waives a research and development tax credit for another person, it will be deemed to have claimed such credit for purposes of the rules concerning the refundable manpower training tax credit.

Effective dates

In general, eligible training expenses, including wages paid to eligible employees, that entitle a business to a refundable manpower training tax credit are those relating to purchases of courses that constitute eligible training activities beginning after the day of the Budget Speech and for which contracts are signed after that day.

However, the price of an HRDP purchased from a firm or a registered human resources development consultant or a recognized training institution will only be eligible if the contract is signed after August 31, 1990. Furthermore, other training expenses concerning the purchase of courses from a registered private training corporation, including wages paid to eligible employees, will be eligible provided the contracts are signed after August 31, 1990 for eligible training activities beginning after this date, i.e. at the end of the initial registration process of these training agents with CFPs. Such will also be the case for training activities that take place outside Québec requiring validation by a CFP.

2.4 Measures to ensure necessary cash flow for businesses

Reduction of tax instalment payments

In order to match assistance granted as refundable tax credits and outlays relating to eligible training expenses, the refundable manpower training tax credit may be applied against tax instalment payments of corporations in regard to income tax and the tax on capital under the same conditions as those applicable to scientific research and experimental development tax credits.

Tax credit financed by the SDI

To increase the cash flow of a corporation whose income tax and tax on capital are less than the refundable manpower training tax credit it is entitled to claim, the scientific research and experimental development refundable tax credit financing program will be extended to the refundable manpower training tax credit. The program consists of a loan guarantee granted by the Société de développement industriel du Québec to financial institutions. The guarantee will cover a significant portion of the value of the tax credit receivable.

SDI risk-sharing loan

It is more difficult for businesses to obtain financing from financial institutions when the reason for the loan involves investments in training. To make it even easier for businesses to invest in training, the SDI will consider training expenses to be eligible for a risk-sharing loan following the completion of an investment project eligible for its investment assistance program.

The risk-sharing loan will apply to training expenses, net of the refundable tax credit. It will cover the amount of training expenses recognized under this program. The risk-sharing loan may reach 100 % of these expenses, net of the refundable tax credit, which cannot, however, exceed 10 % of eligible investment expenses.

The Minister of Industry, Commerce and Technology will soon release the details of the application of these two new SDI programs.

2.5 Impact on the government's financial framework

The refundable manpower training tax credit will cost the government \$ 67 000 000 in fiscal 1990-1991 and \$ 100 000 000 in fiscal 1991-1992.

IMPACT OF THE REFUNDABLE MANPOWER TRAINING TAX CREDIT ON THE GOVERNMENT'S FINANCIAL FRAMEWORK (in millions of dollars)

	1990-1991	1991-1992	1992-1993
Refundable tax credit	- 67	- 100	- 108

Note : A negative entry indicates a cost to the government.

3. Adapting the tax system in order to contribute to the development of Québec's economy

3.1 Matching institutional and individual investors in QSSP investment funds

Investors have been able to include purchases of securities of a QSSP investment fund (QIF) in a stock savings plan (QSSP) since 1988. QIF securities enable an individual to enjoy QSSP benefits while diversifying his portfolio and minimizing his risk. The deduction rate such an individual is entitled to is generally based on the proportion of shares eligible for the QSSP purchased by the QIF in the year and the various deduction rates associated with these eligible shares.

The principle followed is that the QSSP tax benefit enjoyed by individuals who invest in a QIF is the same as that they would have obtained had they purchased directly the shares acquired by the QIF.

Under the existing rules, therefore, funds collected by the QIF in a year must be invested in shares eligible for the QSSP in that year in order to entitle the taxpayer to a deduction. This rule has limited the development of large QIFs that would attract funds from both institutional investors and individuals. To further encourage the development of such QIFs and to direct their investment to businesses that need it most, changes will be made to the rules for QIFs at least half of whose funds are invested in small and medium-sized businesses eligible for the QSSP.

QIF investing mainly in developing corporations

More flexible rules for investments in developing corporations

An additional 12 months to invest

A new category of QIFs is introduced to increase the flexibility available to this type of investment. A QIF that agrees to invest an amount equal to at least 50 % of the proceeds of the issue of its securities in shares of developing corporations (DCs) eligible for the QSSP, will have an additional 12 months in which to carry out its commitment. This period will extend to December 31 of the year following the year of issue of the QIF securities eligible under the QSSP.

In such circumstances, investors who acquire QIF securities in their year of issue will enjoy, as of that year, the tax deduction based on the QIF's commitment to acquire shares of DCs.

To understand this measure, it is appropriate to recall that in general, for purposes of the QSSP, a DC means a corporation with assets between \$ 2 000 000 and \$ 50 000 000 or stockholders' net equity of at least \$ 750 000 and at most \$ 20 000 000.

Commitment by the QIF to invest in developing corporations and time allowed to meet this commitment

When a QIF makes a public issue of securities in a year that are eligible for a stock savings plan, it may stipulate, in the final prospectus or the application for exemption from filing a prospectus concerning the issue, that it agrees to use a percentage, not less than 50 %, of the proceeds of the issue to acquire common shares with full voting rights of the DC or preferred shares convertible into such shares during the period beginning on the date of the receipt of the final prospectus or exemption from filing a prospectus and ending on December 31 of the year following the year of issue (hereafter called "the period").

Concerning other eligible shares the QIF can acquire during the year of issue of its securities, it must own them on December 31 of the year of issue so that their adjusted cost can be reflected in the adjusted cost of the eligible security for the individual, as is the case at present. However, there will be no requirement to that effect, but the calculation of the adjusted cost of the QIF's eligible security will take into account the acquisition of other eligible shares during the year of issue.

Adjusted cost of an eligible security

The notion of adjusted cost of an eligible security will be changed so that the adjusted cost of all common shares of DCs with full voting rights or preferred shares convertible into such shares that the QIF has agreed to purchase before the end of the period is taken into account, in the first place, in determining the adjusted cost of an eligible security in the year of issue of this security. Second, the adjusted cost will also take into account, in the same way as it does now, the adjusted cost of eligible shares not covered by the commitment acquired by the QIF in the year of issue. As is currently the case, the deduction may not exceed the cost of the security for an individual, so that the adjusted cost of all eligible securities of the QIF may not exceed the total amount collected from individuals by the QIF.

Shares purchased for coverage purposes

Currently, the QIF must, in general, keep the size of its portfolio of shares eligible for the QSSP³ stable for at least two years. This means that on December 31 of each of the two years following the year of an issue, the QIF must be the owner of eligible shares or coverage shares whose adjusted cost is at least equal to the adjusted cost of all eligible securities issued by the QIF which have not been redeemed by the QIF on December 31 of the year of issue or of each of the two years following the year of issue, as the case may be.

This rule will be adapted to apply to eligible shares not covered by the commitment which the QIF acquired in the year of issue and whose adjusted cost will be reflected in the adjusted cost of all eligible shares issued by the QIF in the year of issue.

As a result of the time allowed to meet the commitment mentioned above concerning the acquisition of shares of a DC, the QIF will have to own, at the end of such period, common shares with full voting rights, or preferred shares convertible into such shares, of DCs for which the adjusted cost is at least equal to the percentage of the commitment concerning the use of the proceeds of the issue stipulated in the final prospectus or application for exemption from filing a prospectus concerning the issue of the QIF's securities. In addition, on December 31 of the year following the expiry of the period and on December 31 of the following year, the QIF must own eligible shares or coverage shares whose adjusted cost is at least equal to the percentage of such a commitment.

Other features of a QIF and penalties

Concerning this new category of QIF, only one issue eligible for the QSSP will be authorized for a given QIF. Existing definitions concerning the arrangement reached by an individual and a QIF, the notion of investment fund, the notion of eligible security, and the mechanism of deduction or inclusion of an amount in calculating an individual's income continue to apply. Finally, existing rules covering penalties will be adapted to reflect the commitment to acquire shares of DCs up to a stipulated percentage, as described above.

Effective date

These changes will apply to securities of a QIF issued after the day of the Budget Speech, for which the final prospectus or application for exemption from filing a prospectus concerning their issue states that it agrees to use a stipulated percentage of the proceeds of the issue to acquire shares of DCs, as described above.

3.2 Improvements to the savings and credit union permanent shares savings plan

The savings and credit union permanent shares savings plan was introduced to promote and sustain growth in the permanent capitalization of savings and credit unions. The plan, scheduled to last three years, enables savings and credit unions to undertake issues of permanent shares, subject to an annual maximum issue amount for all savings and credit unions, entitling the first individual purchasers to a tax deduction.

Currently, the maximum deduction an individual can claim is \$ 1 000 per year and \$ 3 000 for the life of the plan. In addition, for the year in which the plan is implemented, an individual who purchased a share during the first 60 days of 1990 could elect to have the acquisition of such share deemed to have taken place in 1989, thus allowing him to claim his deduction in that year.

Maximum annual deduction raised from
\$ 1 000 to \$ 2 000

Higher deduction limits

To improve the effectiveness of this measure, the current limit of \$ 1 000 per year is raised to \$ 2 000 for taxation years 1990 and 1991 and the amount of the total deduction for the life of the plan is raised to \$ 5 000. There is no change to existing rules concerning the maximum annual amount of issues by savings and credit unions.

Additional period of 60 days

Furthermore, a period similar to the one granted for acquisitions of permanent shares for 1989 will be applicable to individuals for acquisitions of permanent shares for 1990 and 1991. An individual who purchases a permanent share during the first 60 days of 1991 or 1992 will have the option of deeming the acquisition of such share to have occurred in 1990 or 1991 respectively. For purposes of the rules concerning the minimum holding period of two full calendar years for a permanent share, a share acquired during one of these 60-day periods will be deemed to have been acquired during the preceding year. As a further result, the period during which savings and credit unions can issue permanent shares eligible for the tax deduction is extended to include the first 60 days of 1992, subject to existing limits.

3.3 Québec Business Investment Companies

Extension and improvement of the QBIC start-up assistance program

A start-up assistance program for Québec Business Investment Companies (QBICs), administered by the Société de développement industriel du Québec, was introduced in the 1988-1989 Budget for a period of two years. Under this program, a non-taxable grant can be provided corresponding to the lesser of \$ 5 000 and 50 % of total start-up costs, incorporation expenses and costs connected with the first investment of a QBIC. If the QBIC was formed for the employees of a business, the amount of the grant may reach \$ 10 000.

QBIC start-up grant improved and extended
for two years

To further promote the creation of Québec Business Investment Companies, this program is renewed for an additional period of 25 months. Furthermore, the ceiling applicable to the amount of the grant is raised to \$ 10 000 in the case of any QBIC that proceeds with a public issue, by means of a prospectus or an offering memorandum. In other cases, however, the existing limits apply to the amount of the grant.

This measure applies to any QBIC registered as such during the period from May 1, 1990 to June 1, 1992.

Taxation of the value of personal benefits

The QBIC program was created to help business owners find financial partners wishing to share the risk inherent in their business while participating in its growth.

In some cases, various types of benefits can be provided by a third party with an interest in the project or by a corporation that benefited or will benefit from an eligible investment made or to be made by a QBIC to an individual who is a shareholder of this company or who is becoming one or to a person related to him, and which have the effect of reducing the cost to such individual of his investment.

To ensure the fiscal integrity of the QBIC program, Québec's legislation will be clarified to provide that the amount or value of any benefit conferred on an individual who is a shareholder of a QBIC or who is in the process of becoming one or to a person related to him, by a corporation that has benefited from an eligible investment of a QBIC or by a third party with an interest in the project, is included in the calculation of his income.

This clarification applies to benefits granted after the day of the Budget Speech for an investment made by a QBIC after that day.

Tightening of rules following a business reorganization

Currently, a corporation that has received an eligible investment from a QBIC cannot purchase or redeem shares that are part of this investment during the period of 60 months following such investment. A corporation that makes such a purchase or redemption currently incurs a penalty for which the rules have been relaxed by this Budget Speech. These relaxation measures are explained in detail in the section "Easing of penalties".

Now, such a corporation can reorganize its capital stock during this period in order to replace common non-purchasable and non-redeemable shares acquired by a QBIC with shares that do not satisfy these conditions.

Rules will be introduced to provide that the penalty for redemption will also apply when an eligible corporation undertakes a reorganization during the period of 60 months following the investment when the non-purchasable or non-redeemable shares acquired by a QBIC are replaced by shares that confer a right of purchase or redemption.

This change applies to any reorganization of capital that occurs after the day of the Budget Speech.

Shares acquired subsequent to the conversion of debentures

At present, a QBIC can invest in a small or medium-sized business by subscribing for debentures or preferred shares convertible into common shares with full voting rights. Under these circumstances, the shareholders of the QBIC can claim a tax deduction in the year of acquisition of the shares resulting from the conversion if, at such time, the corporation that issued the convertible securities in its favour is an eligible corporation for the purposes of the QBIC program.

Rules eased for issues of convertible debentures

To be eligible, a corporation must satisfy several conditions, including having assets of less than \$ 25 000 000 or stockholders' net equity of at most \$ 10 000 000. A corporation that has issued convertible securities in favour of a QBIC can satisfy, on the issue date of such convertible securities, the business-size criterion yet exceed the limits on assets and stockholders' net equity at the time the shares resulting from the conversion are acquired. Currently, such a situation deprives shareholders of such a QBIC of the tax deductions to which they would otherwise be entitled.

Therefore, to ensure that the growth of a corporation that has benefited from an investment in convertible securities from a QBIC does not penalize the shareholders of the QBIC, a change will be introduced to shift the application of the criterion relating to the size of the business to the time of acquisition of the convertible securities by a QBIC. However, the other criteria will continue to apply at the time of conversion of such securities.

This change will apply to an investment made by a QBIC after May 16, 1989.

Easing of penalties

The basic objective of the QBIC program is to enable small and medium-sized businesses to increase their permanent capital, which is an essential component of their growth. The tax legislation contains penalties designed to ensure that this objective is achieved.

For this purpose, a corporation that benefits from an eligible investment cannot purchase or redeem shares included in it during the period of 60 months following such an investment. Otherwise, it incurs a penalty equal to 30 % of the amount of the eligible investment.

Now, this penalty may seem inappropriate for certain transactions effected for business reasons. Therefore, this penalty may henceforth be calculated on the basis of the amount of the shares purchased or redeemed rather than on the total eligible investment. The calculation of the penalty will be based on the rate of deduction to which the eligible investment effectively entitles the taxpayer, so that the rate associated with the penalty is reduced from 30 % to 25 %.

Consequently, the amount of the penalty that may be imposed on an eligible corporation that purchases or redeems, during the period of 60 months following the acquisition of an eligible investment, a share included in it will be equal to 25 % of the lesser of :

- the amount of the purchase or redemption of the share multiplied by the deduction rate used in determining the adjusted participation for the eligible investment that includes such share ; and
- the amount of the eligible investment divided by the number of shares included in the eligible investment multiplied by the rate mentioned above.

This relaxation measure has applied since May 27, 1986.

Discretionary power

As is the case with the stock savings plan, a discretionary power will be introduced in the tax legislation to enable the Minister of Revenue to reduce or cancel the amount of the redemption penalty if, considering the circumstances, he believes that it results from a transaction undertaken mainly for business purposes. Such discretionary power will also apply to the penalty invoked when a QBIC does not hold all the shares included in an eligible investment for a period of 24 months following such investment.

This measure has applied since May 27, 1986.

3.4 Research and development tax credits

Eligible university entities

Research carried out in a university or related institution currently allows businesses to claim a refundable tax credit of 40 % of all scientific research and experimental development expenses when such expenses are incurred by an eligible university entity under a university research contract.

For purposes of the tax measures related to research in a university or related institution, eligible university entities include Québec universities, prescribed university hospital medical research centres and the following prescribed agencies : the Centre de recherche en informatique de Montréal (CRIM), the Canadian Centre for Automation and Robotics in Mining (CCARM), the Institut de recherche en exploration minérale (IREM), the Centre de caractérisation microscopique des matériaux (CM)² and the Société de microélectronique industrielle de Sherbrooke (SMIS).

Two new university entities

The Université de Montréal has formed the Institut de recherche en pharmacie industrielle (IRPI) to carry on industrial pharmaceutical research and development activities. The Centre de recherche Université Laval Robert-Giffard, in close cooperation with Université Laval, is engaged in pharmacological research.

In view of their association with two Québec universities, these two agencies are recognized as eligible university entities. Scientific research and experimental development expenses incurred by the Institut de recherche en pharmacie industrielle, and those incurred by the Centre de recherche Université Laval Robert-Giffard, under a university research contract will be eligible for the refundable 40 % tax credit on all such expenses.

These designations will take effect the day following the day of the Budget Speech.

Acquisition of rights

In general, a taxpayer's current research and development expenses include those made as a payment to an entity recognized under the tax legislation, for instance, a university, college or research institute. This payment must be made for scientific research and experimental development carried out in Canada and concerning a business of the taxpayer.

However, under the existing tax legislation, no deduction for scientific research and experimental development can be claimed by the taxpayer for an expense incurred to acquire rights in scientific research and experimental development, or arising therefrom.

To ensure compliance with this rule when a payment is made to an entity recognized under the tax legislation, the legislation will be clarified to disallow a deduction for a payment made to such entity when it is reasonable to consider that the payment was made to acquire rights in scientific research and experimental development or arising therefrom.

This measure applies to payments made after the day of the Budget Speech. However, transitionally, it will not apply to a payment made no later than December 31, 1990 concerning a scientific research and experimental development project that has reached a sufficiently advanced stage on the day of the Budget Speech.

4. Meeting the environmental challenge

Given the magnitude of the environmental problems facing us, economic development must be reconciled with protection of the environment to achieve sustainable development. In view of environmental requirements, existing technologies will have to be adapted and improved over the coming decades. Environmental research and development is an essential link in the technological conversion required by the environmental challenge.

Creation of an Environmental Research and Technological Development section of the Technological Development Fund (TDF)

Last year, the government created the Technological Development Fund (TDF). The TDF was funded with \$ 300 000 000 over five years mainly to provide catalyst research and technological development projects with financial support. The TDF is designed to complement the research and development tax incentives introduced in recent years.

The TDF is well adapted to finance large-scale catalyst projects including those whose objectives are mainly environmental. However, few Québec companies in the environment sector are currently sufficiently developed to meet the requirements for catalyst projects as defined in the TDF.

A more flexible approach that is better adapted to the characteristics of a fledgling industry will be applied to environmental research and development projects. For this purpose, a new "Environmental Research and Technological Development" section will be included in the Technological Development Fund.

Funding for the new section of the TDF will amount to \$ 50 000 000, i.e. an average of \$ 10 000 000 a year over five years. The life of the TDF will therefore be extended by one year and its total budget will be raised to \$ 350 000 000. The required funding will be granted to the Conseil exécutif to meet the needs of this new section.

Funds allocated to the environmental section of the TDF will finance two separate programs :

- the exploratory environmental research program ; and
- the environmental technology development program.

Funds allocated to the "Environmental Research and Technological Development" section of the TDF in the first year will be distributed equally between the two programs. This distribution will subsequently be reviewed, since the environmental technology development program will require increasing amounts of funding once it is off the ground.

Exploratory environmental research program

This program, administered by the ministère de l'Environnement du Québec, will fund basic and applied research as part of projects designed to acquire knowledge that is essential to meet Québec's main environmental challenges. Thematic committees set up by the ministère de l'Environnement will advise the government in identifying priorities and projects to fund. The program will also serve to promote catalyst projects and environmental technology innovation projects. The program's annual plan of activities will be submitted to the Conseil du trésor and the ministère du Conseil exécutif for approval.

Research proposals will be solicited either through public calls for proposals or by invitation to universities, research centres or specialized companies. Financial assistance will be provided in the form of grants.

Environmental technology development program

This program, administered by the TDF, will follow the operating rules of catalyst projects, with adaptations. To be eligible, an environmental technology innovation project may be based on a partnership that may include a single industrial firm and one or more research bodies (university, CEGEP, research centre, or public laboratory). These partners will have to agree on a cooperative approach to achieve the project's objectives.

Expansion and extension of the 40 % tax credit

40 % tax credit

An environmental technology innovation project can be of the same type as a research project carried out in a university or related institution. Companies may enjoy, for scientific research and experimental development expenditures incurred as part of an environmental technology innovation project, the same tax benefits as those granted for research carried out in a university or related institution for pre-competitive research or catalyst projects.

Consequently, for any project recognized as an environmental technology innovation project and certified by the TDF, the participating company will enjoy, as in the case of other catalyst projects, a refundable tax credit of 40 % on the total amount of scientific research and experimental development expenditures incurred in Québec for such a project.

This measure applies for an environmental technology innovation project that receives its certification from the TDF during the period between the day of the Budget Speech and January 1, 1995, for scientific research and experimental development expenditures incurred in Québec for such a project no later than December 31, 1996.

In addition, the tax credit for catalyst projects will be extended for one year and so will apply to such a project certified by the TDF no later than December 31, 1994, for scientific research and experimental development expenses incurred in Québec for such projects no later than December 31, 1996.

TDF funding rate

The Technological Development Fund completes the tax measures providing assistance for research and development. Expenditures that are not eligible for tax measures, when incurred as part of an environmental technology innovation project, will be eligible for the Technological Development Fund.

Grant of up to 50 % for expenses upstream and downstream of an environmental technology innovation project

The funding rate may reach 40 % of eligible expenses upstream and downstream of the part of the project that consists of research and development. In exceptional situations, funding may reach 50 % of eligible expenses, provided the environmental technology innovation project is of major national or community interest.

Other measures

Moreover, the TDF may fund all expenses of an environmental technology innovation project, regardless of the 40 % or 50 % funding rate limits, when the financial assistance is shared equally with the federal government.

In the case of a participating company in a position to take advantage of tax incentives from both the federal and Québec governments, the combined effect of the tax incentives and the Québec government funding may produce a substantial level of government financing, i.e. around 65 %.

The Minister of the Environment and the Minister of Industry, Commerce and Technology will soon release the details of how these two new programs will operate.

5. Improving the tax system pertaining to individuals and providing assistance for families

The objectives of the policy pursued by the government since 1986 with regard to the taxation of individuals and families form the cornerstone of the measures announced in the 1990-1991 Budget Speech. The first objective was to improve the competitiveness of Québec's tax system compared to the systems of its principal trading partners. The second objective was to encourage members of low-income households to work by increasing their disposable income on entering the labour market, raising the levels at which they begin to pay taxes, and implementing a new income security plan which promotes the employability of social aid recipients. Finally, the government has sought to increase financial support for families with children, in particular by making the tax system fairer for families and providing allowances for newborn children.

The measures announced in this Budget Speech regarding the tax and transfer systems as they pertain to individuals will make it possible to continue pursuing these objectives. These measures include indexing the benefit scales of the Parental Wage Assistance (PWA) and Employment Incentives (EI) programs by 4.8 % effective January 1, 1991. Most personal tax credits, including those for families, and family allowances and allowances for young children will also be indexed. Tax thresholds for families will be raised to match the increase in the benefits of income security programs. For families, additional support will be provided by improving the program of downpayment assistance for a residence and increasing the maternity allowance and the allowance for newborn children for the third child and subsequent children. The property tax refund will be increased to reflect changes in school board funding.

\$ 408 000 000 more in 1991 of which 60 %
allocated to families

Over a full year, these measures will add \$ 408 000 000 to the disposable income of households. The largest share, that is, \$ 243 000 000 or about 60% of the total will be directed to families with children. Around 58 % of the total or \$ 236 000 000 will benefit households with income of less than \$ 40 000.

5.1 Indexing based on recognized needs in 1991

Indexation of 4.8 % in 1991

The amounts representing essential needs recognized in the tax system and in the PWA and EI programs will be increased by 4.8 % in 1991 to reflect the increase in the cost of living during 1990.

Indexing of EI benefit scales

To ensure that households benefiting from the EI program maintain their purchasing power, benefit scales will be indexed by 4.8 % effective January 1, 1991. Other parameters of income security programs, in particular those concerning the sharing of dwellings, housing allowances and parental contributions, will also be indexed by 4.8 % in 1991.

\$ 61 000 000 for EI program

As a result of these measures, EI program beneficiaries will receive a total of \$61 000 000 in 1991. The appropriations of the ministère de la Main-d'oeuvre, de la Sécurité du revenu et de la Formation professionnelle will be increased by \$16 000 000 for 1990-1991 to provide for this indexing.

Furthermore, benefits under the Financial Support Program for persons with serious employment constraints will be indexed on January 1, 1991, in accordance with existing regulations. This measure is aimed at protecting the purchasing power of these people in order to maintain their real disposable income, as in the case of EI program beneficiaries.

Indexing of the PWA program

The income thresholds used to compute the benefits paid to families under the PWA program will also be indexed by 4.8 % in 1991. These thresholds are indicated in the section "Application".

This measure will raise the income threshold at which PWA program benefits cease. For example, the threshold for a couple with two children will rise from \$ 23 231 in 1990 to \$ 24 314 in 1991.

These changes will produce an additional \$ 2 000 000 for families receiving benefits under the program in 1991.

**THRESHOLDS AT WHICH ELIGIBILITY FOR PWA PROGRAM ENDS
(in dollars)**

	1990	1991
Couple with two children, 6-11		
☐ one work income	23 231	24 314
☐ two work incomes		
- before deduction for child care expenses	23 763	24 867
- after deduction for child care expenses	28 272	29 596
Couple with one child under 6		
☐ one work income	21 509	22 496
☐ two work incomes		
- before deduction for child care expenses	21 997	23 002
- after deduction for child care expenses	26 506	27 731
Single-parent family with one child under 6		
- before deduction for child care expenses	17 184	17 966
- after deduction for child care expenses	21 579	22 576

Note: For couples with two work incomes, one spouse earns 60 % of household income and the other, 40 %.

Increase in tax thresholds

Tax thresholds for families with children will be adjusted upward to reflect the increase in benefits under the PWA and EI programs. The income at which a couple with two children will begin to pay taxes will increase from \$ 23 234 in 1990 to \$ 24 324 in 1991. This will maintain the coordination of the tax and transfer systems.

**COMPARISON OF INCOMES AT WHICH INCOME TAX
IS PAYABLE (QUÉBEC)**
(in dollars)

	Taxation year	
	1990	1991
Couple with two children, 6-11		
☐ one work income	23 234	24 324
☐ two work incomes		
- before deduction for child care expenses	25 458	26 620
- after deduction for child care expenses	30 018	31 457
Couple with one child under 6		
☐ one work income	21 610	22 624
☐ two work incomes		
- before deduction for child care expenses	23 661	24 785
- after deduction for child care expenses	28 170	29 513
Single-parent family with one child under 6		
- before deduction for child care expenses	17 190	17 979
- after deduction for child care expenses	21 585	22 589
Childless couple under 65		
- one work income	13 513	14 072
- two work incomes	13 094	13 664
Childless couple 65 or over		
- retired	16 468	16 740
Single person under 65		
- living alone	8 479	8 829
- sharing a dwelling unit	7 304	7 655
Retired single person 65 or over		
- living alone	11 022	11 334
- sharing a dwelling unit	10 034	10 296

1 For couples with two incomes, one spouse earns 60 % of the household income and the other, 40 %.

2 For taxpayers under 65, the income corresponds to the work income. For those 65 or over, the income includes retirement and investment income, as well as income from old age security transfers.

Indexing of tax credits

Owing to income security reform and changes to the tax system over the past few years, the amounts representing essential needs recognized for purposes of computing personal tax credits are generally the same as those used to establish benefit scales under the EI program and family thresholds under the PWA program. When income security benefits are indexed, the amounts representing essential needs recognized for purposes of the tax system must be indexed at the same rate to maintain the coordination of the tax and transfer systems. Consequently, the amounts used to compute the basic personal tax credit and the tax credits for a married person, dependent child, other dependant, single-parent family, and person living alone will be increased by 4.8 % in taxation year 1991.

The amount to cover the recognized essential needs of each adult calculated on the basis of the basic personal amount and the amount for a married person will rise from \$ 5 280 to \$ 5 530, while the tax credit will increase from \$ 1 056 to \$ 1 106. In addition, the amount to cover the recognized essential needs of dependent children will be increased to \$ 2 440 for the first child and to \$ 2 110 for each additional child. Consequently, the tax credit for the first dependent child will rise from \$ 466 in 1990 to \$ 488 in 1991, while the credit for each additional child will move up from \$ 403 to \$ 422. Since the total amount needed for the recognized essential needs of the first dependent child in post-secondary studies is equal to the basic amount recognized for essential needs, i.e. \$ 5 530, the amount representing recognized essential needs for post-secondary studies will be increased from \$ 1 475 to \$ 1 545 per term in 1991. In addition, the deduction ceilings of \$ 2 100 and \$ 4 200 on child care expenses in 1990 will be increased by 4.8 % in taxation year 1991 to \$ 2 200 and \$ 4 400 respectively.

Like the transfer system, the Québec tax system recognizes additional essential needs for persons living alone, mainly for the cost of housing. Consequently, the amount granted to persons living alone will also be indexed by 4.8 %, increasing from \$ 940 in 1990 to \$ 985 in 1991. However, to ensure that only such persons are recognized as having such additional essential needs, the taxpayer will have to furnish written proof that he or she has maintained a dwelling in order to be eligible for the tax credit for persons living alone. Further information is provided in the section "Application".

Greater income tax reduction for families

The amount of the tax reduction for families will also be increased in taxation year 1991, from \$ 1 180 to \$ 1 260 for a couple with a child. For a single-parent family, the reduction will be raised from \$ 925 to \$ 990 for an individual not sharing a dwelling with another adult and from \$ 710 to \$ 750 for an individual sharing a dwelling with another adult.

To establish the amount of the tax reduction for families, the total income of the applicant and that of his or her spouse, less the amount representing recognized essential needs for the personal tax credits claimed, are taken into account. To reflect the zero tax thresholds, an additional deduction is provided. For a couple with children, the deduction will be \$ 7 570 in taxation year 1991, compared to \$ 7 250 in 1990. The deduction for an individual of a single-parent family, which will be \$ 5 300 or \$ 6 280 in 1990, depending on whether or not the person shares a dwelling with another adult, will be raised to \$ 5 455 and \$ 6 560 respectively in 1991. These deductions will also be taken into account for purposes of the property tax refund. In addition, income exempted for dependent children for purposes of the tax reduction for families will be indexed, increasing from \$ 5 280 in 1990 to \$ 5 530 in 1991.

Property tax refund up

To reflect changes to school board funding, the maximum amount of allowable taxes giving entitlement to the property tax refund will be increased by \$ 100 in taxation year 1990, from \$ 1 050 to \$ 1 150. As a result of this measure, the average \$ 90 increase in property tax per household caused by these changes will be automatically offset at a rate of 40 % for eligible households. In addition, the maximum amount of taxes giving entitlement to the property tax refund will be indexed by 4.8 % in 1991, increasing to \$ 1 205. The amount equal to the amount of property tax included in the essential needs recognized under the tax and transfer systems will also be increased by 4.8 % in 1991, from \$ 260 to \$ 270 per adult.

The following table shows the new amounts for personal tax credits, the tax reduction for families, the deduction ceilings on child care expenses, and the property tax refund.

Family allowances indexed by 4.8 % in 1991

Finally, the amounts of the basic family allowances, allowances for young children and additional allowances for handicapped children will also be indexed by 4.8 % on January 1, 1991. The amounts of monthly allowances to be paid in 1991 are shown in a table in the following section.

**RECOGNIZED ESSENTIAL NEEDS AND THEIR TAX CREDIT VALUE,
TAX REDUCTION FOR FAMILIES, DEDUCTION CEILINGS FOR CHILD CARE EXPENSES
AND PROPERTY TAX REFUND**
(in dollars)

	Taxation year 1990		Taxation year 1991	
	Amount for recognized essential needs	Value of tax credit ¹	Amount for recognized essential needs	Value of tax credit ¹
1. Recognized essential needs				
☐ Basic	5 280	1 056	5 530	1 106
☐ Person living alone	940	188	985	197
☐ Married person	5 280	1 056	5 530	1 106
☐ Dependent children				
— general				
first child	2 330	466	2 440	488
second child and subsequent children	2 015	403	2 110	422
— for children in post-secondary studies (per term) ²	1 475	295	1 545	309
— for single-parent family ³	1 165	233	1 220	244
☐ Other dependants ⁴				
— general	2 015	403	2 110	422
— disabled ⁵	5 280	1 056	5 530	1 106
	Additional deduction for tax reduction purposes	Value of tax reduction	Additional deduction for tax reduction purposes	Value of tax reduction
2. Tax reduction for families				
☐ Couple with children	7 250	1 180	7 570	1 260
☐ Single-parent family				
— living alone	6 280	925	6 560	990
— sharing a dwelling unit	5 300	710	5 455	750
3. Deduction ceilings for child care expenses				
☐ Child under 7 or impaired	4 200		4 400	
☐ Other children	2 100		2 200	
4. Property tax refund				
	Before Budget	After Budget		
☐ Maximum allowable property tax	1 050	1 150	1 205	
☐ Value of property tax included in an adult's essential needs	260	260	270	

¹ The amounts for recognized essential needs have been converted into tax credits, at the rate of 20 % of the amount of recognized needs.

² The tax credit for post-secondary studies is limited to two terms.

³ The tax credit for single-parent families is equal to 50 % of the tax credit for the first dependent child, and is added to it.

⁴ Other dependants include anyone 18 years old or over related to the taxpayer by blood, marriage or adoption.

⁵ This tax credit cannot be added to the general tax credit for dependants.

5.2 Additional support for families

Allowances for newborn children

Currently, a family in Québec receives an allowance of \$ 500 on the birth of the first child and \$ 1 000 for the birth of the second child. For each additional child, the allowance is \$ 4 500, paid over the three years following the birth of the child, in 12 quarterly instalments of \$ 375.

\$ 6 000 for the third child

To provide more assistance for large families, the allowance for newborn children for the third child and each additional child will be increased from \$ 4 500 to \$ 6 000. It will be paid over the four years following the child's birth, in 16 quarterly instalments of \$ 375.

Families will receive additional support totalling \$19 000 000 over a full year as a result of this measure.

FAMILY ASSISTANCE ALLOWANCES BEFORE AND AFTER BUDGET SPEECH (in dollars)

Allowance for newborn children			Monthly allowance				
Rank of child	Before Budget	After Budget	Age :	1990		1991	
				Under 6 years	6 to 17 years	Under 6 years	6 to 17 years
First	\$ 500	\$ 500	Family allowance :	\$ 9.77	\$ 9.77	\$ 10.24	\$ 10.24
			Allowance for young children :	\$ 8.75		\$ 9.17	
				\$ 18.52		\$ 19.41	
Second	\$ 1 000 (\$ 500 at birth and \$ 500 on 1st birthday)	\$ 1 000 (\$ 500 at birth and \$ 500 on 1st birthday)	Family allowance :	\$ 13.02	\$ 13.02	\$ 13.64	\$ 13.64
			Allowance for young children :	\$ 17.49		\$ 18.33	
				\$ 30.51		\$ 31.97	
Third	\$ 4 500 (12 quarterly payments of \$ 375)	\$ 6 000 (16 quarterly payments of \$ 375)	Family allowance :	\$ 16.27	\$ 16.27	\$ 17.05	\$ 17.05
			Allowance for young children :	\$ 43.71		\$ 45.81	
				\$ 59.98		\$ 62.86	
Fourth and subsequent	\$ 4 500 (12 quarterly payments of \$ 375)	\$ 6 000 (16 quarterly payments of \$ 375)	Family allowance :	\$ 19.49	\$ 19.49	\$ 20.43	\$ 20.43
			Allowance for young children :	\$ 43.71		\$ 45.81	
				\$ 63.20		\$ 66.24	

Maternity allowance raised from \$ 240 to \$ 360

Maternity allowance

The maternity allowance is designed for remunerated workers entitled to maternity benefits under the Unemployment Insurance Act. This allowance, which currently amounts to \$ 240, is granted for the two-week period which elapses before unemployment insurance benefits begin.

To provide more assistance for families when a child is born, the maternity allowance will be increased to \$ 360 from midnight of the day of the Budget Speech.

This measure will provide additional financial support totalling \$ 6 000 000. For 1990-1991, the appropriations of the ministère de la Main-d'oeuvre, de la Sécurité du revenu et de la Formation professionnelle will be increased by \$ 5 000 000 to cover this additional assistance.

Downpayment assistance for a residence

The Downpayment Assistance Program, introduced for a three-year period in 1988-1989 and improved last year, provides families with the downpayment required for the purchase of their first principal residence.

The program is designed for families with at least one child under 18. To be eligible, the applicant must not have previously owned a principal residence, while the spouse must not have owned a principal residence in the preceding five years. Assistance consists of a loan guaranteed by the government and obtained from a financial institution. The government pays all the interest on the loan for a seven-year period. The amount guaranteed equals 10 % of the mortgage amount, up to a maximum of \$ 7 000. All principal residences, whether existing or newly constructed, are currently eligible under the program, provided their sale price does not exceed \$100 000, including the land.

Since the program came into effect, its results have been more than satisfactory. By last April 12, nearly 21 000 families had taken advantage of the program to purchase their first principal residence. On the average, each family received a loan guarantee of more than \$ 5 000.

Maximum price raised from \$ 100 000 to \$ 110 000

To allow as many families as possible to benefit from the program, the price of an eligible residence, including the land, will be increased from \$ 100 000 to \$ 110 000. This change applies to any sale agreement concluded for a principal residence after midnight of the day of the Budget Speech. It will increase assistance for families by \$ 2 000 000.

5.3 Assistance for the underprivileged and other taxpayers with property tax increases

Higher property taxes : low and medium-income households protected

To give school boards complete freedom in the management of school buildings and equipment, the government will expand their taxation power. This transfer of responsibility will raise the property tax by an average of \$ 90 per household. However, the increase for low and middle-income households will be lower on account of certain existing government measures and the budgetary measure that raises, by \$ 100, the maximum amount of taxes giving entitlement to the property tax refund in 1990.

The following government measures offset the increase in the school property tax :

- the property tax refund will automatically rise by \$ 16 000 000 and by an additional \$ 6 000 000 as a result of the budgetary measure increasing, by \$ 100, the maximum amount of taxes giving entitlement to the refund ;
- the housing allowance provided for under income security programs and introduced last January 1, which will offset by up to 75 % the increase in school property tax for low-income families, for a total of \$ 3 000 000 ;
- the low-rental housing program, which will offset rent hikes stemming from the \$ 5 000 000 property tax increase for this type of housing. The government will cover the entire cost of the tax increase ;
- the housing allowance program for elderly persons (LOGIRENTE) will reimburse persons 60 and over for a large part of the property tax increase, i.e. for around \$ 1 000 000 ;
- the property tax refund program for farms and woodlots will compensate farmers and woodlot owners for up to 70 % and 85 % of the increase respectively, for a total of around \$ 7 000 000.

Government measures will therefore provide approximately \$ 38 000 000 annually to offset the rise in school property tax.

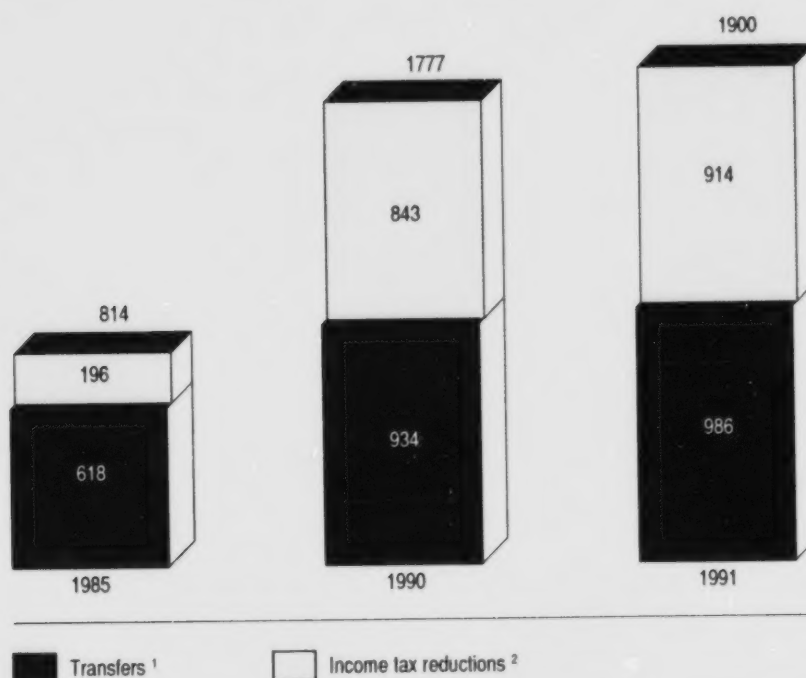
5.4 Impact of the measures

On financial support for children

\$ 1 900 000 000 in support in 1991

The measures announced in this Budget Speech regarding the tax and transfer systems as they pertain to individuals will help to improve financial support for families with children. In 1985, financial assistance from the Québec government amounted to \$ 814 000 000. As a result of the measures introduced since 1985, government financial support totals \$ 1 777 000 000 in 1990 and will increase to \$ 1 900 000 000 in 1991. Annual financial support for children has increased by more than \$ 1 000 000 000 since 1985.

GOVERNMENT FINANCIAL SUPPORT FOR CHILDREN (in millions of dollars)



- 1 Transfers include the amounts granted for children in the form of allowances, income security transfers (social aid, PWA and work income supplement), maternity allowance, subsidies for child care expenses from the OSGE, and the Downpayment Assistance Program. Allowances include basic family allowances, allowances for young children (or availability allowances) and allowances for newborn children. The amounts are recorded in the year families receive them.
- 2 Income tax reductions represent the impact on income tax payable of measures applicable to dependent children under the tax system. These measures include the exemption or the credit for the first child of a single-parent family, the exemption or the credit for a child in post-secondary studies, the child care expenses deduction and the income tax reduction for families. The taxation of federal family allowances is also taken into account and, where applicable, the recovery of federal family allowances. The impact of the measures is recorded in the taxation year they are in force.

The policy pursued since 1986 regarding the tax and transfer systems has led to a substantial increase in the financial support provided for families by the Québec government. Although all families have benefited from the increase, families with several children and low-income families have received the most additional assistance.

For example, financial assistance for a family with an income of \$ 25 000 and one child increased from \$ 95 in 1985 to \$ 1 572 in 1990 and will reach \$ 1 716 in 1991. Financial support for the same family with two children rose from \$ 521 in 1985 to \$ 2 319 in 1990 and will total \$ 2 501 in 1991. Assistance for the same family with three children increased from \$ 880 in 1985 to \$ 4 763 in 1990, and will amount to \$ 4 931 in 1991.

**FINANCIAL SUPPORT FROM QUÉBEC AND OTTAWA
FOR CHILDREN
COUPLE WITH A \$ 25 000 WORK INCOME
(in dollars)**

	1985	1987	1989	1990	1991
Support from Québec					
☐ one child	95	371	1 293	1 572	1 716
☐ two children	521	896	1 996	2 319	2 501
☐ three children	880	1 379	4 381	4 763	4 931
Support from Ottawa					
☐ one child	690	788	792	828	865
☐ two children	1 491	1 660	1 916	1 968	2 021
☐ three children	2 719	2 943	3 555	3 630	3 710
Total support					
☐ one child	785	1 160	2 085	2 400	2 581
☐ two children	2 012	2 556	3 911	4 286	4 523
☐ three children	3 598	4 322	7 936	8 393	8 641

- 1 In this table, the couple has one work income and no child care expenses. The first child is 7. In the case of the couple with two children, the children are 2 and 7. The couple with three children has a newborn child, a child of 2 and one of 7.
- 2 Québec's financial support consists of PWA benefits, the tax reduction for dependent children, family allowances and all other allowances. Federal support comes from the tax reduction for dependent children, family allowances and the refundable tax credit for children.
- 3 Where applicable, the 1991 structure takes the anticipated Consumer Price Index into account.
- 4 Individual entries are rounded off and may not correspond to totals.

Financial support for a family with an income of \$ 40 000 and one child increased from \$ 95 in 1985 to \$ 983 in 1990 and will reach \$ 1 130 in 1991. Assistance for the same family with two children increased from \$ 521 in 1985 to \$ 1 730 in 1990 and will amount to \$ 1 916 in 1991. Financial support for the same family with three children increased from \$ 880 in 1985 to \$ 4 174 in 1990 and will total \$ 4 412 in 1991.

**FINANCIAL SUPPORT FROM QUÉBEC AND OTTAWA
FOR CHILDREN
COUPLE WITH A \$ 40 000 WORK INCOME
(in dollars)**

	1985	1987	1989	1990	1991
Support from Québec					
☐ one child	95	425	700	983	1 130
☐ two children	521	982	1 403	1 730	1 916
☐ three children	880	1 480	3 789	4 174	4 412
Support from Ottawa					
☐ one child	342	313	252	257	261
☐ two children	911	936	1 116	1 167	1 220
☐ three children	2 084	2 204	2 681	2 753	2 830
Total support					
☐ one child	436	738	953	1 240	1 392
☐ two children	1 433	1 918	2 519	2 897	3 135
☐ three children	2 963	3 684	6 470	6 927	7 243

- 1 In this table, the couple has one work income and no child care expenses. The first child is 7. In the case of the couple with two children, the children are 2 and 7. The couple with three children has a newborn child, a child of 2 and one of 7.
- 2 Québec's financial support consists of PWA benefits, the tax reduction for dependent children, family allowances and all other allowances. Federal support comes from the tax reduction for dependent children, family allowances and the refundable tax credit for children.
- 3 Where applicable, the 1991 structure takes the anticipated Consumer Price Index into account.
- 4 Individual entries are rounded off and may not correspond to totals.

Progressive assistance : more for those with low income

The structure of financial assistance for families is progressive. For families benefiting from last resort assistance programs, the support provided under the new income security plan therefore meets all the recognized needs of their children. The government has made a special effort to reduce the loss of transfers suffered by low-income working families when they participate in the labour market. Assistance for families with two children and an income of \$ 12 000 will reach \$ 6 708 in 1991. Assistance declines as income increases, from \$ 2 501 for an income of \$ 25 000 to \$ 1 916 for an income of \$ 40 000.

**FINANCIAL SUPPORT FROM QUÉBEC AND OTTAWA
FOR CHILDREN
1991 TAXATION YEAR
(in dollars)**

Work income	12 000	15 000	20 000	25 000	30 000	40 000	50 000	60 000	75 000
Support from Québec									
☐ one child	5 334	3 954	2 945	1 716	1 525	1 130	730	611	611
☐ two children	6 708	5 085	4 075	2 501	2 310	1 916	1 516	1 417	1 417
☐ three children	8 971	7 348	6 339	4 931	4 807	4 412	4 012	4 058	4 093
Support from Ottawa									
☐ one child	847	867	867	865	594	261	261	61	65
☐ two children	2 020	2 043	2 043	2 021	1 720	1 220	720	122	129
☐ three children	3 780	3 780	3 780	3 710	3 330	2 830	2 330	762	258
Total support									
☐ one child	6 181	4 821	3 812	2 581	2 119	1 392	992	672	675
☐ two children	8 728	7 128	6 118	4 523	4 030	3 135	2 235	1 539	1 546
☐ three children	12 752	11 129	10 119	8 641	8 138	7 243	6 343	4 819	4 351

1 In this table, the couple has one work income and no child care expenses. The first child is 7. In the case of the couple with two children, the children are 2 and 7. The couple with three children has a newborn child, a child of 2 and one of 7.

2 Québec's financial support consists of PWA benefits, the tax reduction for dependent children, family allowances and all other allowances. Federal support comes from the tax reduction for dependent children, family allowances and the refundable tax credit for children.

3 Where applicable, the 1991 structure takes the anticipated Consumer Price Index into account.

4 Individual entries are rounded off and may not correspond to totals.

On taxpayers

Household disposable income up
\$ 408 000 000 in 1991

The measures announced with regard to individuals and families will raise household disposable income by \$ 408 000 000 in 1991. Most of the gains arise from the indexing of essential needs and amount to \$ 375 000 000. The remainder stem from the increase in the maximum amount of taxes giving entitlement to the property tax refund (\$ 6 000 000) and from the measures providing additional support for families, including the changes to the allowances for the birth of the third child and subsequent children (\$ 19 000 000), the increase in the maternity allowance (\$ 6 000 000) and the improvement of the Downpayment Assistance Program (\$ 2 000 000).

**IMPACT OF MEASURES PERTAINING TO INDIVIDUALS AND FAMILIES
ON HOUSEHOLD DISPOSABLE INCOME**
(in millions of dollars)

	Taxation year	
	1990	1991
Indexing of recognized essential needs at 4.8 % in 1991		
☐ Taxation system		296
☐ EI and PWA		63
☐ Family allowances and allowances for young children		16
Subtotal : Indexing		375
Property tax refund (PTR)	6	6
Subtotal : Indexing and PTR	6	381
Additional support for families		
☐ Allowances for newborn children — third child and subsequent children	14	19
☐ Maternity benefits	3	6
☐ Downpayment assistance for a residence	1	2
Subtotal : additional support for families	18	27
Total Impact	24	408

On certain typical families

The measures announced regarding individuals and families will benefit mainly low and middle-income parents. The improvement in the financial situation of low-income families can be attributed primarily to the indexation of the transfer system. For example, the measures announced in the Budget Speech will augment the disposable income of a couple with two children and an income of \$ 10 000 by \$ 565 in 1991. The disposable income of the same family earning \$ 25 000 will rise by \$ 358, of which \$ 262 will stem from the indexation of the tax system.

As a result of the changes to the transfer system, the head of a single-parent family with a young child and earning \$ 15 000 will gain \$ 549 in disposable income, since no tax is payable by this income bracket. With an income of \$ 25 000, the increase will be \$ 314.

**GAIN UNDER THE 1990-1991 BUDGET
COUPLE WITH TWO CHILDREN, 6-11
ONE WORK INCOME
1991 TAXATION YEAR
(in dollars)**

Gain under the 1990-1991 Budget								
Household work income	Québec transfers and income tax before Budget	Indexing in 1991					Gain under Budget	Québec transfers and income tax after Budget
		EI	PWA	Housing allowance	Income tax	Other measures		
0	13 498	516		27		5	548	14 046
5 000	10 877	540	- 8	27		5	564	11 442
10 000	7 700	540	- 8	27		6	565	8 265
15 000	4 648		428	27		42	497	5 145
20 000	2 644		428	27		75	530	3 173
25 000	223				262	96	358	581
30 000	- 1 161				262	96	358	- 803
35 000	2 575				262	96	358	- 2 217
40 000	- 4 024				262	96	358	- 3 667
50 000	- 6 818				262	13	275	- 6 543
75 000	- 12 774				141	13	154	- 12 620

1 A negative entry indicates that the amount of transfers is lower than the amount of income tax, or that it has been reduced.

2 Other measures : measures concerning the indexing of family allowances and the property tax refund.

**GAIN UNDER THE 1990-1991 BUDGET
COUPLE WITH TWO CHILDREN, 6-11
ONE WORK INCOME
1991 TAXATION YEAR
(in dollars)**

Household work income	Increase in transfers	Income tax reduction	Impact of Budget
0	548		548
5 000	564		564
10 000	565		565
15 000	497		497
20 000	530		530
25 000	96	262	358
30 000	96	262	358
35 000	96	262	358
40 000	96	262	358
50 000	13	262	275
75 000	13	141	154

GAIN UNDER THE 1990-1991 BUDGET
1991 TAXATION YEAR
(in dollars)

Household work income	Couple with one child, 6-11		Couple with two children, 6-11	Couple with three children, 6-11	Single- parent family with one child under 6	Childless couple under 65		Single person under 65 living alone
	One work income	Two work incomes	One work income	One work income		One work income	Two work incomes	
0	502	502	548	566	404	388	388	248
5 000	518	518	564	583	459	412	412	296
10 000	518	518	565	616	593	412	412	61
15 000	423	423	497	545	549	102	52	61
20 000	486	423	530	548	437	102	102	61
25 000	325	823	358	314	314	147	103	118
30 000	325	349	358	392	332	172	161	112
35 000	325	352	358	392	332	147	162	59
40 000	325	352	358	392	332	100	100	59
50 000	245	287	275	307	149	100	100	59
75 000	128	151	154	182	151	100	100	59

1 The gain under the Budget includes the indexing of taxation and transfer systems and the changes in the property tax refund.

2 For couples with two work incomes, one spouse earns 60 % of the household income and the other, 40 %.

GAIN UNDER THE 1990-1991 BUDGET
RETIRED TAXPAYER 65 OR OVER
(in dollars)

Total household income	Single person living alone	Childless couple
15 000	121	N/A
20 000	127	162
25 000	127	162
30 000	127	162
35 000	127	172
40 000	71	172
50 000	59	172
75 000	59	100

1 Total income includes Old Age Security Pension, Guaranteed Income Supplement, if applicable, and private income. Private income consists of investment and pension income in equal parts.

2 The gain under the Budget includes the indexing of taxation and transfer systems and the changes in the property tax refund.

3 The minimum income of the childless couple 65 years old or over is higher than \$ 15 000 in 1991. It has been estimated at approximately \$ 15 510. N/A means "not applicable".

On the government's financial framework

Cost to the government in 1992-1993 :
\$ 443 000 000

The changes to personal income tax, the PWA and EI programs and to family assistance will cost the government \$96 000 000 in 1990-1991, \$332 000 000 in 1991-1992 and \$443 000 000 in 1992-1993.

The impact of the indexation of the tax system on the government's financial framework will be felt gradually. In 1992-1993, when the full effect of this measure is felt, the cost to the government will reach \$326 000 000. The indexation of EI and PWA program benefits will then cost \$67 000 000, while that of family allowances and allowances for young children will cost \$16 000 000. In 1992-1993, the measures concerning the property tax refund will cost \$6 000 000, while the additional support for families will cost \$28 000 000, including \$20 000 000 for the increase in allowances for newborn children, \$6 000 000 for the increase in the maternity allowance and \$2 000 000 for improved assistance for a downpayment for a residence.

FINANCIAL IMPACT OF MEASURES PERTAINING TO INDIVIDUALS AND FAMILIES (in millions of dollars)

	Fiscal year		
	1990-1991	1991-1992	1992-1993
Indexing of recognized essential needs at 4.8 % in 1991			
☐ Taxation system	- 50	- 220	- 326
☐ EI and PWA	- 16	- 63	- 67
☐ Family allowances and allowances for young children	- 4	- 16	- 16
Subtotal: Indexing	- 70	- 299	- 409
Property tax refund (PTR)	—	- 6	- 6
Subtotal: Indexing and PTR	- 70	- 305	- 415
Additional support for families			
☐ Allowances for newborn children—the third child and subsequent children	- 19	- 19	- 20
☐ Maternity benefits	- 5	- 6	- 6
☐ Downpayment assistance for a residence	- 2	- 2	- 2
Subtotal : additional support for families	- 26	- 27	- 28
Total impact	- 96	- 332	- 443

1 A negative entry indicates a cost to the government.

2 The impact on federal transfers is not included in these amounts.

5.5 Application

EI program

The method used to index the EI program benefit scales is designed to protect the purchasing power of income security program beneficiaries. In indexing the scales, it is necessary to take into account changes in the benefits paid under other transfer programs, in particular federal and provincial family allowances, the refundable federal child tax credit and the refundable federal sales tax credit. According to this method, when the rate of indexation used for another program is lower than that used for the EI program, the income security benefit scales are revised upward. Conversely, when the indexation rate is higher, the scales are revised downward.

In indexing the EI program benefit scales in 1991, it will be important to continue making these adjustments in order to maintain the real disposable income of income security beneficiaries. However, there will be no adjustment following payment of the refundable federal goods and services tax (GST) credit. This additional credit will compensate low-income households for the implementation of the GST in 1991, while the 4.8 % indexation rate for the EI program benefit scales will reflect the rise in the cost of living in 1990.

PWA program

The family thresholds of the PWA program, the excluded work income and the amounts already covered by the EI program in 1991 are shown in the following table.

FAMILY THRESHOLDS, EXCLUDED WORK INCOME, AND AMOUNTS ALREADY COVERED UNDER EI PROGRAM FOR PURPOSES OF PWA PROGRAM IN 1991
(in dollars)

	Family threshold	Excluded work income ¹	Amount already covered under EI
Couple with children			
– one dependent child	11 274	660	11 274
– more than one dependent child	12 246	660	12 246
Single-parent family			
☐ Not sharing a dwelling unit			
– one dependent child	8 631	1 056	8 631
– more than one dependent child	9 540	1 056	9 845
☐ Sharing a dwelling unit			
– one dependent child	7 461	1 056	7 461
– more than one dependent child	8 377	1 056	8 665

¹ The level of excluded work income is that provided for in the EI program, when the household adults are deemed available.

Tax credit for persons living alone

Currently, a taxpayer who is not eligible for the tax credit for a married person and who maintains a self-contained domestic establishment which he or she does not share with a person other than a dependent child may claim the tax credit for persons living alone.

For purposes of control, Québec's tax legislation will be amended so that the taxpayer who claims the tax credit for persons living alone will henceforth be required to attach proof to his or her income tax return for the year to the effect that he or she maintained a dwelling. The proof required for this purpose will generally be either that which must be furnished by an applicant for the property tax refund, that is, a real estate tax certificate (relevé 4) or a copy of property tax bills. If the taxpayer cannot provide such proof, he must supply other, similar evidence.

These new requirements will come into effect in taxation year 1990. Pertinent documents will therefore have to be sent with income tax returns filed in the spring of 1991.

Allowance for the third child and subsequent children

Under existing regulations, quarterly payments of \$ 375 are payable during the first month of each quarter. Quarters are counted from the month following the birth of a third and each additional child, subject to the child being eligible during the month prior to such payment. Payments cease in the quarter following the quarter in which the child reaches three years of age.

With the increase in this allowance from \$ 4 500 to \$ 6 000, the quarterly payments of \$ 375 will cease in the quarter following the quarter in which the child reaches four years of age.

This increase in the allowance for newborn children will apply to the third child and each subsequent child for any quarter beginning after March 1990, provided at least one quarterly allowance payment is made for such child under four years of age on May 1, 1990.

6. Revenue measures

Given the federal government's policy of maintaining reductions in and further reducing fiscal transfers to the provinces and to prevent the federal government's disengagement from resulting in a deterioration of public services in Québec, compensatory revenue measures are introduced.

6.1 Corporate taxes

The current 12 % business surtax will be raised by three percentage points. The effective rate of the employer contribution to the health services fund will be 3.45 %, the general, rounded-off rate of the tax on capital will be 0.52 % and the rounded-off tax rate on the revenue of active businesses not eligible for the small business deduction will be 6.33 % while that applicable to the revenue of active businesses eligible for the deduction will be 3.45 %. The new effective rates are given in the following table.

**ROUNDED-OFF EFFECTIVE RATES OF EMPLOYER CONTRIBUTION
TO THE HEALTH SERVICES FUND, OF THE TAX ON CAPITAL
AND OF INCOME TAX**

	Before Budget Speech %	After Budget Speech %
Employer contribution to the health services fund	3.36	3.45
Tax on capital		
☐ General rate	0.50	0.52
☐ Banks and loan and trust companies	1.01	1.04
Corporate income tax		
☐ Income of an active business		
— Eligible for the SBD ¹	3.36	3.45
— Other income	6.16	6.33
☐ Income of an inactive business	14.56	14.95

¹ Small business deduction.

The new rate for the surtax will apply to employer contributions to the health services fund for wages paid or deemed paid after the day of the Budget Speech.

With regard to the tax on capital and corporate income tax, the new rate for the surtax will apply to the taxation years ending after the day of the Budget Speech. If a taxation year straddles the day of the Budget Speech, the new rate will apply proportionally to the number of days in the taxation year that follow the day of the Budget Speech. Furthermore, instalments for the tax on capital and income tax will have to be increased accordingly starting with the payment for May 1990.

Finally, the appropriate adjustments will be made for the purposes of the refundable tax credit for losses and of the minimum tax on capital payable by some corporations, to reflect the new surtax rate.

Impact on the financial framework of the government and on the corporate tax burden

The increase in the surtax will generate additional revenue of \$ 104 000 000 for the government and increase expenditure by \$ 12 000 000 for the 1990-1991 fiscal year, for a net positive impact of \$ 92 000 000. For the entire 1991 taxation year, the tax burden on businesses in the private sector will increase by \$ 86 000 000.

FINANCIAL IMPACT OF THE ADDITIONAL SURTAX OF 3 % FOR THE FULL 1991 TAXATION YEAR (in millions of dollars)

	Direct impact of the surtax			Indirect impact on income tax	Impact on tax burden
	Employer contribution to the HSF	Tax on capital	Income tax		
Private sector	51	24	26	(15)	86
Public sector	21	7	—	—	28
Total	72	31	26	(15)	114

6.2 Taxation of alcoholic beverages

The taxation of alcoholic beverages depends on the place where the beverages are consumed. Alcoholic beverages sold for consumption outside an establishment within the meaning of the Meals and Hotels Tax Act are subject to the retail sales tax. If the beverages are sold for consumption in these establishments, a retailer who buys them for resale and consumption in his establishment is subject to an alcoholic beverage retailer duty, whose rate is equal to the retail sales duty, except on sales of beer and cider in taverns.

At midnight on the day of the Budget Speech, alcoholic beverages will be subject to additional taxation in the form of a duty or tax, depending on where the beverage is consumed.

Sales tax on alcoholic beverages sold outside establishments

A specific retail sales tax of 0.015 cents per millilitre of beer and 0.03 cents per millilitre of other alcoholic beverages (including cider and blueberry-based beverages) will be levied on sales of these products as of midnight on the day of the Budget Speech.

This sales tax will be part of the general sales tax base. The present tax of 9 % will continue to be levied on the basis of the average retail sales price per litre of beer or of the sales price of other taxable alcoholic beverages, but the specific tax will be added to these two prices.

Advance collection

In the case of beer sold in grocery stores, the present system of advance collection of the general sales tax on beer will be used to collect the specific tax. Brewers will be given a legal mandate to collect the specific tax in advance when the beverages are sold for deliveries made as of the day following the day of the Budget Speech. Grocers will therefore be able to sell their products to consumers without having to calculate the specific tax, as is now the case for the general sales tax.

The same collection system will be used for wine sold in grocery stores, where the two taxes will be collected in advance by the Société des alcools du Québec, as is also now the case for the general sales tax.

Inventories

Retailers who, at midnight on the day of the Budget Speech, have in stock alcoholic beverages for sale and consumption outside an establishment, on which the general sales tax has already been collected, must remit to the Minister of Revenue, using the form that he will provide, the specific tax and the general tax applicable on the specific tax on this stock. The same will apply to wholesalers in regard to the alcoholic beverages that they have in stock at that time, on which the general sales tax has been collected.

Duty on alcoholic beverages sold in establishments

A specific alcoholic beverage retailer duty of 0.015 cents per millilitre of beer and 0.03 cents per millilitre of other alcoholic beverages (including cider and blueberry-based beverages) will apply as of midnight on the day of the Budget Speech at the time of purchase by alcoholic beverage retailers for alcoholic beverages received after that time. In the case of a retailer who makes alcoholic beverages, i.e. one who holds a small-scale production permit, the specific duty will apply to such beverages sold on the spot as of midnight on the day of the Budget Speech.

This duty will be part of the general tax base. In the case of beer, the general tax of 9 % (13.4 % for a holder of a tavern permit) will continue to be levied on the basis of the average retail sales price of a litre of beer, but the specific duty will be added on, whereas for other alcoholic beverages, the specific duty will be added to the supplier's sales price.

Collection

The present system for the collection of the general retailer's duty will be used to collect the specific duty. The supplier must collect the general and specific duties while holders of small-scale production permits for beer must remit both duties to the ministère du Revenu.

Since the specific duty is to be paid by alcoholic beverage retailers when they purchase the products, it need not be levied on the products they have in stock on the day of the Budget Speech.

Impact of the measure

Below is an example of the increase resulting from the measure on the price of alcoholic beverages :

	Amount \$
Beer	
— case of 12 small 341-mL bottles	0.67
— case of 24 small 341-mL bottles	1.34
— pack of 6 small 355-mL cans	0.35
— pack of 12 small 355-mL cans	1.70
Alcoholic beverages other than beer	
— 500-mL bottle	0.17
— 750-mL bottle	0.25
— 1-L bottle	0.33

This measure will generate additional revenue for the government of \$ 103 000 000 for the 1990-1991 fiscal year.

6.3 Tax on tobacco

The following changes are made to tobacco taxes:

- the specific tax of 4.52 cents per cigarette will be increased to 5.52 cents at midnight on the day of the Budget Speech and to 6.12 cents on January 1, 1991;
- the specific tax of 2.0 cents a gram of loose tobacco will be raised to 2.5 cents at midnight on the day of the Budget Speech and to 2.8 cents on January 1, 1991. However, when the retail price of loose tobacco is lower than 3.0 cents a gram, the tax will be 75 % of the sales price as of midnight on the day of the Budget Speech and 85 % as of January 1, 1991;
- the ad valorem tax of 60 %, applicable to all tobacco with the exception of cigarettes, loose tobacco and cigars, will be replaced with a specific tax of 7.47 cents per gram of tobacco at midnight on the day of the Budget Speech, which will be increased to 8.07 cents on January 1, 1991; and
- the ad valorem tax of 60% of the retail price of cigars will be raised to 75 % at midnight on the day of the Budget Speech and to 85% on January 1, 1991.

Since the initial changes will apply to all retail sales as of midnight on the day of the Budget Speech, any person who sells tobacco, cigars or cigarettes must make an inventory of his stock at that time and remit the tax applicable according to the new rates and amounts, minus the portion he has already paid, using the form provided by the Minister of Revenue. The same will apply to the changes applicable on January 1, 1991.

Finally, to maintain the present level of contribution to the financing of the Olympic deficit, the contribution will be reduced to 14.689 % of the tax collected as of the coming into force of the new measures applicable on the day of the Budget Speech. The contribution will be reduced to 13.236 % on January 1, 1991 to take into consideration the changes to be made on that date.

The measures applicable as of midnight on the day of the Budget Speech represent a price increase of 25 cents per pack of 25 cigarettes and of \$ 1 per 200 grams of loose tobacco.

These measures will generate a total of \$ 133 000 000 in tax receipts for the government for the 1990-1991 fiscal year.

7. Miscellaneous fiscal measures

7.1 Income tax

Use of funds accumulated in an RHOSP for the purchase of furniture

To support the furniture industry, it was announced in the 1989-1990 Budget Speech that funds could be withdrawn from a Registered Home Ownership Savings Plan (RHOSP) tax-free for the purchase of new household furnishings before January 1, 1990, provided that the furnishings were delivered no later than February 28, 1990.

Purchasing furnishings with funds in an RHOSP

To continue supporting the industry, this measure will remain in effect for another year. RHOSP holders will be able to use all or part of the funds accumulated in such a plan, free of tax, for purchasing new household furnishings before January 1, 1991. The funds must be withdrawn before January 1, 1991, even if payment for the furnishings is not due until after that date, provided that payment is made no later than July 1, 1991.

New household furnishings purchased before January 1, 1991 but not delivered by that date will be considered eligible, provided they are delivered no later than February 28, 1991.

Certain taxpayers purchased new household furnishings before January 1, 1990, while the funds accumulated in their RHOSP were not withdrawn until payment was due, that is, in 1990. Under existing rules, these taxpayers could not withdraw the funds accumulated in their RHOSP free of tax in 1990.

To take this special situation into account, these taxpayers will be entitled to a tax exemption for funds withdrawn in 1990 and used for the payment in 1990 of new household furnishings purchased before January 1, 1990.

Recognition of certain examination fees as tuition fees

At present, a student can usually deduct the amount of tuition fees paid to a post-secondary educational institution recognized for this purpose by the tax legislation.

In general, tuition fees include examination fees charged by a professional corporation. However, in some cases, professional corporations charge examination fees in addition to tuition fees.

To ensure that certain examination fees are eligible for the tuition fee deduction, the legislation will be amended so that the examination fees charged by the professional corporations mentioned in Schedule 1 of the Professional Code, i.e. exclusive professions and professions with reserved titles, will be eligible for the deduction when the examinations are required to become a member of one of the corporations or to practice one of the professions mentioned in the schedule.

This measure applies to taxation year 1990 and subsequent years.

Relaxation of the rules governing tax exemptions for new corporations

Under the current tax system, a new corporation enjoys an income tax exemption and a capital tax exemption during its first three taxation years. These exemptions cover the revenue of such a corporation which would otherwise be taxable at the base rate of 3 % and the portion of the tax on capital of the corporation attributable to its first \$ 2 000 000 in paid-up capital. This measure is designed to facilitate the establishment of new businesses.

However, certain requirements must be met to ensure that only new corporations enjoy the exemption and to prevent corporations from being set up solely for the purpose of benefiting from the income and capital tax exemptions.

One of these requirements stipulates that a corporation is not eligible for the exemption in a given taxation year if, at any time in the period extending from the day of its incorporation to the end of the year, the corporation was related to another corporation.

However, this requirement can give rise to certain unfair situations simply because a related corporation is held by a member of the immediate family of the person who set up a new corporation.

A less stringent rule will be introduced and will require that a new corporation must not be associated with another corporation. To avoid certain abuses which could arise as a result of this measure, the new anti-avoidance rule respecting associated corporations will also apply in such cases. Consequently, when one of the main reasons for the separate existence of a corporation in a taxation year is to reduce the amount of tax otherwise payable, the corporation will be deemed to be associated during the year.

This measure will apply to new corporations whose first fiscal year ends after the day of the Budget Speech.

Obligation to produce a remittance form for deductions at source

In general, under the current tax legislation, an employer who makes payments subject to a source deduction must submit the prescribed form to the Minister of Revenue with each payment for the amounts deducted. According to this rule, the form must be produced only if a payment must be made to the ministère du Revenu.

To better control the remittance of source deductions, the tax regulations will be amended so that an employer will be required to submit a remittance form to the Minister of Revenue for the periods specified in the legislation, even though no amounts were deducted for those periods.

The effective date will be established by the regulation providing for these amendments.

Tax treatment of scholarships for severely handicapped students

At present, the government provides financial assistance to severely handicapped students under a scholarship program designed primarily to allow such students to pursue studies at the college and university level.

Under this program, an eligible student may receive a scholarship amount covering, on the one hand, needs similar to those recognized by the student loans and scholarships program and, on the other hand, certain expenses related to his or her handicap, such as the purchase of specialized equipment or access to certain services. Such expenses are reimbursed on the presentation of vouchers.

In addition, under the current tax system, only the amount in excess of \$500 received for a scholarship is taxable. To bring tax rules into line with the policy of integrating handicapped students into the school system, a technical amendment will be made in the existing legislation to ensure that an amount received under the scholarship program for severely handicapped students for the purpose of reimbursing certain eligible expenses will not be considered a scholarship amount and will be exempt from income tax.

This change applies to amounts received after December 31, 1987.

Spreading out the taxation of certain retroactive payments

An individual may be entitled to receive federal labour adaptation benefit payments covering a period of several years. However, when such benefits are paid in a single year, the tax burden of the individual may be increased and cause financial problems if he or she is required to repay the non-taxable benefits paid under public income security programs during the period covered by such a retroactive payment.

Current tax regulations allow an individual to spread out the tax on a retroactive payment made by the Régie des rentes du Québec when he or she is required to reimburse benefits paid under special programs covered by the Automobile Insurance Act, the Act respecting industrial accidents and occupational diseases and the Act respecting income security.

To allow more taxpayers to benefit from this measure, it will also apply to retroactive federal labour adaptation benefit payments after December 31, 1985.

7.2 Retail sales tax

Inclusion of the GST in the consumption tax base

At present, the federal manufacturers' sales tax (FST) is included in prices subject to consumption taxes in Québec. The goods and services tax (GST), scheduled for implementation in 1991, will replace the FST.

As of 1991, the GST will be included in the selling price on which Québec consumption taxes are calculated regardless of when the two taxes are payable. This approach will also allow vendors to benefit from GST rules aimed at minimizing administrative costs, particularly the rule allowing them to include the GST in a product's selling price and that allowing a streamlined accounting method to be used to determine the GST to be remitted.

Sales tax related to the GST credit

Under the GST system to be implemented by the federal government on January 1, 1991, registrants are entitled to claim input tax credits, thereby recovering the GST paid on purchases of goods and services used in a commercial activity.

GST rules also allow non-profit organizations, charities, hospital administrations, school administrations, colleges, universities and municipalities to claim a refund for the amount of GST paid.

Given the considerable administrative constraints and high management costs generated by consumption tax refunds for such GST credits or refunds, individuals obtaining such credits or refunds may not claim the related consumption taxes. This will also apply to federal sales tax refunds for inventories on hand, to which consumption taxes have already been applied at December 31, 1990.

In the latter case, since Québec consumption taxes will already have been levied on these products, these same taxes will not be reapplied to the GST subsequently payable.

Finally, these rules are not intended to apply when the GST or FST refund is related to tax paid in error.

Technical amendment to duties on pari-mutuel betting

At present, duties on pari-mutuel betting are technically established based on the value of the total amount waged, whereas from a strictly legal point of view, they are applied to winners.

Under the GST, this tax will apply on the operator's gross margin, determined by subtracting the amount of provincial tax payable by the bettor on the wager.

To integrate the two tax systems, from 1991 on, liability to duties will be applied to bettors rather than winners. This measure will have no effect whatsoever on government revenues or the tax burden of bettors.

7.3 Tax on capital

Deferred income tax payable

At present, when calculating its paid-up capital for the purpose of the tax on capital, a corporation must include the provisions and reserves shown in its financial statements, except those for depreciation or depletion, as well as the provisions and reserves allowed under Part I of the Taxation Act. In this respect, reserves and provisions include a corporation's total reserves and provisions, including provisions for deferred taxes.

To ensure compliance with tax policy in this respect and given that the amount of deferred income tax receivable can be applied against paid-up capital, a clarification will be made to the effect that a corporation's reserves and provisions include provisions for deferred income tax payable.

This clarification will be applied on a declaratory basis, with the exception of cases pending as of January 29, 1990 and notices of objection submitted to the Minister of Revenue no later than such date.

Rules for allocating capital of partnerships

At present, when calculating its paid-up capital for purposes of the tax on capital, a corporation with an interest in a partnership must include those amounts which would be included in the calculation of paid-up capital of the said partnership if it were a corporation. Amounts to be included are established on the basis of the corporation's interest in the partnership as a proportion of the interest of all partners.

In this regard, the corporation can choose to calculate its interest in the partnership on the basis of either its interest in the partnership's capital or its share of the partnership's profits. Furthermore, each partner may make his choice each taxation year independently of the other partners. As a result, a portion of the capital used by the partnership to generate profits for a corporation may not be subject to the tax on capital.

So that the choice made by the partners does not allow corporations to avoid paying tax on capital which would otherwise be payable, for purposes of the tax on capital the interest of a corporation in a partnership's capital will be established on the basis of its share of the partnership's profits.

This amendment applies to corporations' taxation years ending after the day of the Budget Speech for the financial years of partnerships ending after that day.

Notion of premiums payable by automobile insurance companies

As a rule, the tax on capital paid by an insurance company doing business in Québec is equal to 3 % of automobile insurance premiums payable. When applied to automobile insurance, the notion of premium payable may be open to interpretation.

Thus, under legislation respecting automobile insurance, automobile insurance companies were required to create a risk-sharing mechanism grouping insurers that transfers any risk not covered by their normal underwriting standards to a special fund. As well, a number of insurance companies consider that the amount of premiums payable used to calculate the tax on capital should be equal to the amount of premiums actually paid by those insured, whereas the great majority of insurers consider that this amount is the amount corresponding to premiums and claims payments adjusted by the share of premiums and claims payments transferred to the special fund attributed to them.

This adjusted premium amount is the amount used by the Inspector General of Financial Institutions in his annual report.

To standardize the calculation of the tax on capital for automobile insurance companies, an amendment will be made to tax on capital provisions regarding insurance companies so as to take into account the current practice of automobile insurance companies to determine the amount subject to the tax on capital.

This amendment applies to the taxation year of a corporation ending after the Budget Speech and is applied retroactively over a four-year period so that the income tax for previous years of most automobile insurance companies is not modified.

This measure will result in no significant financial impact for the government.

7.4 Calculating interest on refunds by the ministère du Revenu

Simplifying the calculation of interest on tax claims

At present, if a taxpayer pays an amount due within 30 days of the date of mailing of the notice of assessment, when interest is calculated, the payment date is deemed to be the date on which the notice of assessment was mailed. In addition to notices of assessment, the ministère du Revenu issues notices of collection indicating balances brought forward and the amounts the taxpayer is liable to pay pursuant to one or more tax laws.

Notices of assessment and collection lead to overlapping of the periods allowed the taxpayer, by law, to pay the amounts due without incurring further interest penalties, thereby complicating the calculation of interest and making it hard to explain the calculation.

Tax legislation will be amended to eliminate the overlapping of deadlines created by the simultaneous mailing of notices of assessment and collection, thus enabling taxpayers to keep closer tabs on their unpaid taxes.

This measure will only apply to businesses and will come into force on a date set by the Minister of Revenue when draft legislation to this effect is tabled.

Different interest rates on refunds to corporations

At present, the ministère du Revenu applies the same interest rate to refunds and to tax claims. The rate is set each quarter and is equivalent to the simple arithmetical average of the banks' base lending rates to businesses, as published by the Bank of Canada on the last Wednesday of each of the three months in the period ending the second month of the preceding quarter. The figure is rounded off to the nearest whole number, to which two percentage points are added. Since April 1, 1990, the rate has been 16 %.

The formula used to establish this rate of interest was designed to discourage taxpayers from withholding unpaid taxes to further their own interests. The rate is much higher than the return corporations can obtain on their investments.

The interest rate on refunds to corporations will be set at the market rate as established using the current automatic formula, but without adding two percentage points.

This change will apply starting in the quarter beginning October 1, 1990.

This measure will save the government \$ 4 000 000 in interest payments over a full year.

Change in the period over which interest on refunds is calculated

At present, when a corporation receives a refund with respect to a given taxation year, interest may be payable by the ministère du Revenu on the refund over a period starting the 151st day following the end of the taxation year and ending on the day the amount is refunded.

A corporation must file its tax return at the latest six months after its fiscal year-end. Therefore, interest on refunds with regard to a given fiscal year may be payable to a corporation before the corporation has filed its income tax return for the year in question.

From now on, interest on refunds to corporations will only be payable starting on the 31st day after the conclusion of the six-month period following the corporation's fiscal year-end. When a corporation files an income tax return after the prescribed six-month deadline, current rules governing the calculation of interest on refunds will prevail.

This modification applies as of October 1, 1990.

This measure will save the government \$ 3 000 000 in interest payments over a full year.

Refunds made pursuant to an amended tax return

At present, when a corporation fails, for example, to claim a deduction when calculating its income for a given year, in some instances it may file an amended tax return in a subsequent year and obtain a tax refund.

Under current rules, the ministère du Revenu may have to pay interest on this refund from the time the corporation paid its taxes for the given year.

Because the amendment of a tax return arises from new facts which the corporation brings to the department's attention, no interest will be paid when such a change occurs with regard to a period preceding the submission to the ministère du Revenu of the new information. Interest on refunds arising from an amended tax return will be payable with respect to the period beginning on the 31st day following the date the ministère du Revenu receives the corporation's application for reexamination of the return.

This measure applies to applications for changes received after the day on which the Budget Speech is tabled.

7.5 Other measures

Broadening of the international operations of IFCs

To encourage businesses in the financial sector to conduct their international operations in Montréal, a corporation operating an international financial centre (IFC) in that city is exempted from Québec income tax on revenue from international operations currently stipulated in tax regulations. Moreover, the paid-up capital attributable to the operations of such a centre is exempted from the tax on capital, and the wages paid to an employee whose activities are wholly devoted to such operations are not subject to the employer's contribution to the health services fund.

The government of British Columbia recently adopted a similar measure. Under the British Columbia scheme, a number of financial operations effected between a certified financial institution in Vancouver and an international financial centre in Montréal are exempted from British Columbia income tax, which is not now the case under the Québec taxation system.

To better harmonize both schemes, eligible financial operations stipulated in Québec regulations will be broadened to include transactions between a certified financial institution operating in Vancouver and an international financial centre operating in Montréal, thereby ensuring equally advantageous treatment under the Québec taxation system.

This measure will apply to all transactions conducted by an international financial centre after the day on which the Budget Speech is tabled.

Simplifying the calculation of the tax reduction

At present, low and middle-income two-parent families with at least one dependent child may take advantage of a tax reduction of up to \$ 1 180 in 1990 in the case of a couple. For the purpose of calculating this tax reduction, tax legislation stipulates that the dependent child's income in excess of \$ 5 280 must be taken into account, excluding social aid benefits he receives during the year. Beginning in the 1991 taxation year, this amount will be raised to \$ 5 530.

Since the notion of the net income of a dependent child used for the purpose of calculating the tax credit with respect to a dependent child does not require taxpayers to make any further adjustment, and in order to consider this simplification already part of the tax return, a technical amendment will be made in tax legislation. The notion of net income, excluding social aid benefits received during the year, will also be used to calculate the tax reduction with regard to families, instead of the notion of the dependent child's total income.

This technical amendment will come into effect starting in the 1988 taxation year.

Extension of the deadline for claiming property tax rebates

At present, some taxpayers may obtain a refund of a portion of their municipal and school taxes.

Current rules governing the rebate stipulate that any person wishing to receive the property tax rebate with respect to a dwelling he was occupying on December 31 of the year in question must submit a request by April 30 of the following year.

To take into account special cases where a taxpayer is unable to submit the request within the prescribed deadline, the Minister of Revenue may accept the late submission if he feels that the circumstances warrant his doing so. The application for a rebate must indicate the reasons for the delay; it must be submitted in the year following the expiry of the deadline.

This measure will apply to applications for property tax rebates submitted with respect to the 1989 and subsequent taxation years.

Simplifying the application of the tax on aircraft and locomotive fuel

At present, the purchase of aircraft fuel and coloured fuel oil used to run railway locomotives is subject to a 9 % tax. This type of ad valorem taxation is currently limited to these types of fuel, while a specific tax calibrated to the quantity purchased applies to other fuels.

Given the administrative complexity of the tax, for those who collect it and for the ministère du Revenu, the 9 % ad valorem tax will be replaced by a specific tax of \$ 0.03 a litre, applicable to sales of each type of fuel.

This measure will apply to fuel purchased after midnight on the day of the Budget Speech. As the new tax will usually be equivalent to the ad valorem tax, this modification will have a negligible impact on government revenues.

Race meets at which betting does not occur

The Licences Act stipulates that a \$0.05 entry duty must be paid by any person attending a race meet at which pari-mutuel betting is not carried on. Monitoring the collection of this duty is costly in relation to the amounts collected. As a result, as of midnight on the day of the Budget Speech, the duty will be abolished.

Wages paid by a third party

At present, all employers must contribute to the Québec Pension Plan (QPP) and the health services fund with regard to the wages they pay their employees.

Amounts similar to wages may be paid to an employee through a trustee or a person related to the employer. These amounts are not subject to the employer's contributions to the Plan or fund, as they are not paid directly by the employer. This is true of amounts paid under an employee benefit plan, a salary deferral arrangement, or a profit-sharing plan.

To ensure that all wages and salaries are subject to the employers' contributions required pursuant to the Act respecting the Québec Pension Plan and the Act respecting the Régie de l'assurance-maladie du Québec, both acts will be amended to include the assumption that any person who pays, in whole or in part, the remuneration of an employee for services carried out in connection with a job is deemed to be the employer of the employee in addition to his veritable employer.

These amendments will apply to amounts paid after the day on which the Budget Speech is tabled.

8. Harmonization with federal tax laws and regulations

8.1 Reform of tax assistance for retirement saving

Last December 11, the federal Minister of Finance announced a bill and proposed regulation amending the Income Tax Act and the attendant regulation governing tax assistance for retirement saving.

The main purpose of the reform of tax assistance for retirement saving is to increase the financial security of taxpayers upon retirement by making access to retirement savings more equitable. To this end, the new rules are designed to standardize deductions permitted for taxpayers while taking into account the contributions and benefits provided for under the pension plans offered by employers and allowing taxpayers to add to such contributions and benefits by paying into a registered retirement savings plan (RRSP) up to a set limit.

Progressively, then, as of 1991, taxpayers with the same income will have the same opportunity to save for their retirement, regardless of the pension plan to which they are contributing.

Harmonization with the principle of this reform has already been announced, subject to certain conditions of application which required further analysis. Moreover, the proposed legislation and regulation tabled last December 11 include amendments to the draft bill and regulation released on March 28, 1988 on the same subject.

Simplification for taxpayers and employers

Québec's tax legislation and regulations will be amended so that the rules governing tax assistance for retirement saving will be the same as those applicable under federal income tax rules. Given the complexity of the provisions involved in this reform, for the taxpayer, for the employer and for the taxation authorities, the rules governing harmonization are geared towards simplification. Therefore, generally speaking, the relevant federal tax laws and regulations will not be integrated into Québec's tax laws and regulations; rather, legislation will simply refer to the federal tax system.

To this end, retirement plans registered for federal tax purposes will be automatically registered for Québec tax purposes, deductible amounts for taxpayers and employers will be the same in both systems and the tax slips issued by employers and Revenue Canada stating, in particular, the amount taxpayers may deduct for contributions to a registered retirement plan (RRP), a registered retirement savings plan (RRSP) or a deferred profit-sharing plan (DPSP) will also be used for Québec tax purposes. Taxpayers and employers will thus be spared two different calculations, which will go a long way towards simplifying the application of the reform of tax assistance for retirement saving.

These measures will apply at the same dates provided for under the proposed federal reform.

Moreover, since certain legislative and regulatory provisions currently applicable under the Québec taxation system differ from those applicable for federal tax purposes, transitional rules will be adopted to facilitate the changeover from the present system to the new one. Appropriate adjustments will also be made, particularly as regards registered retirement plans and deferred profit-sharing plans, to account for characteristics specific to the Québec system.

Harmonization of deductible contributions

In the interests of precision, the earned income used to determine the eligible contribution to an RRSP for Québec income tax purposes may differ from the earned income calculated under federal legislation because of certain deductions or exemptions particular to the Québec taxation system.

For instance, the maximum contribution to an RRSP deductible under the Québec system could be lower than that deductible under federal legislation or, in certain exceptional cases, it could be higher. Given the penalty for excess contributions under the federal tax system, the taxpayer could pay only the lesser of the two amounts into an RRSP.

In order to simplify the application of the reform of tax assistance for retirement saving for the taxpayer, the amount a taxpayer can pay into an RRSP for Québec income tax purposes will be the same as for federal income tax purposes.

No penalties for excess contributions

The federal bill and proposed regulation on the reform of tax assistance for retirement saving provides for penalties, including 1 % per month on excess contributions paid into an RRSP.

At present, the Québec system does not include any such penalties, so the taxpayer is not penalized twice. This principle will be maintained: the penalties introduced in the proposed federal reform will not be incorporated into the Québec taxation system.

No penalty on personal benefits derived from an RRSP

The federal taxation system provides for a penalty applicable to any issuer of a registered retirement savings plan (RRSP) that grants a personal benefit to a pensioner or a person related to that pensioner.

This penalty is equal to \$ 100 or the amount or value of the benefit granted, whichever is higher. The benefits covered by this measure are, in particular, trips and any interest-free loans RRSP issuers may offer buyers or persons related to buyers.

Giving such benefits no longer results in the cancellation of the RRSP registration or in the inclusion, in the computation of the taxpayer's income, of the true market value of all the assets of the plan, as was the case prior to 1989.

Québec's tax legislation will be amended in this respect to harmonize with the federal system, except that the issuer of the plan will not be penalized.

This amendment will be applicable to benefits granted after 1988.

Amendment of at-source deduction rates

Currently, an employer who makes a lump-sum payment under an income-averaging annuity, a deferred profit-sharing plan, registered retirement income fund or registered retirement savings plan, or as a retirement payment must generally make an at-source deduction for income tax equal to 13 % of the amount if it does not exceed \$ 5 000, or 20 % if it does.

As of January 1, 1990, all withdrawals of excess contributions from a registered retirement savings plan are subject to such at-source deductions.

In order to make rates of at-source deductions tally with income tax rates applicable under the Québec system, amendments will be introduced establishing at-source deduction rates on lump-sum payments at 16 % for payments not exceeding \$ 5 000 and 20 % for payments exceeding that amount.

This amendment will apply to lump-sum payments made after December 31, 1990.

Retirement compensation arrangements

The reform of tax assistance for retirement saving also amends the tax treatment of retirement compensation arrangements.

A retirement compensation arrangement is a plan or arrangement under which an employer pays contributions to a custodian so that benefits will be paid to an employee or other person when the employee retires or leaves his employment. These arrangements, which are actually retirement plans that do not respect the registration norms of registered retirement plans for tax purposes, are governed by special rules.

At present, an employer may deduct the contributions he pays into a fund that is a retirement compensation arrangement, and the retirement benefits are taxed only when they are paid out to the employee. However, employee contributions paid into such a retirement fund are not deductible.

Moreover, in order to ensure that these retirement compensation arrangements are not unduly used simply as a tax deferral, the federal government levies a refundable tax of 50 % on all contributions to these retirement funds and on the income they generate annually.

Under the bill to reform tax assistance for retirement saving, tabled last December 11, employee contributions will also be deductible beginning with the 1989 taxation year.

In order to improve fairness, which is the objective of the reform of tax assistance for retirement saving, and since no such refundable tax is levied on contributions to and income generated by retirement funds under the Québec taxation system, no deduction will be granted an employee for contributions to a retirement compensation arrangement.

Employer contributions, however, will continue to be deductible and pension benefits will be taxable when paid out to the employee. Consequently, the Québec tax provisions respecting the tax treatment of retirement compensation arrangements will not be amended.

Québec's tax legislation and regulations will be harmonized with the federal bill and proposed regulation on the reform of tax assistance for retirement saving as regards amendments to the definition of retirement compensation arrangements.

8.2 1990-1991 federal Budget Speech

On February 20, 1990, the federal Minister of Finance tabled before the House of Commons a Notice of Ways and Means Motion to amend the Income Tax Act. Québec's tax legislation and regulations will be amended in order to harmonize the federal and Québec taxation systems. However, these measures of concordance will be adopted only after all federal laws deriving from this motion have been assented to, and will be applicable at the same dates they will apply to the federal tax system. These concordance measures are given in the list below.

On the other hand, some of the provisions announced by the federal government were not considered because Québec's taxation system does not contain corresponding provisions. These measures deal, in particular, with the prepayment of the child tax credit (BR 4),* the extension of Part VI tax to large life insurance companies (BR 5) and the amendment of Part XI tax concerning the foreign property limit for deferred income plans (BR 6).

Harmonization measures

Québec's tax legislation and regulations will be amended, and adapted on the basis of their general principles, to include the following federal measures :

1. the determination of the value of gifts of cultural property by the Canadian Cultural Property Export Review Board (BR 1) ;
2. the restrictions on the use of mutual fund trusts and corporations for the benefit of non-residents (BR 2) ;
3. the amendments to registered education savings plans (BR 3) ; and

* References between parentheses refer to the budgetary resolution corresponding to the Notice of Ways and Means Motion to amend the Income Tax Act tabled on February 20, 1990.

4. the presumption that a non-resident person's business income derived from the disposition of real property situated in Canada, Canadian resource property or timber resource property is carrying on business in Canada, and respecting the certification and withholding procedures applicable to dispositions of such property (BR 7).

8.3 Amendments to the Income Tax Act in the federal bill on the goods and services tax

On January 22, 1990, the federal Minister of Finance tabled in the Commons Bill C-62 on the goods and services tax (GST). Part VI of this bill amends the Income Tax Act. Québec tax legislation and regulations will be amended in order to harmonize the federal and Québec taxation systems with respect to the measures in this bill that affect income tax. However, these concordance measures will not be adopted until all federal laws and regulations deriving from the bill have been assented to, and will be applicable on the same dates as they are applied to federal taxes. These concordance measures are given in the list below.

However, certain dispositions of Part VI of the Bill were not considered because Québec's taxation system does not contain corresponding provisions. This is true of the repeal of the sales tax credit, the introduction of the new GST credit and the concordance provisions for the introduction of that tax credit.

Harmonization measures

Québec's tax legislation and regulations will be amended, and adapted on the basis of their general principles, to include the following federal measures :

1. the amendments to the computation of the income of a taxpayer from an office or employment respecting :
 - (a) the determination of the value of a benefit required to be included in computing that income with respect to the introduction of the goods and services tax (GST) (sections 38 and 39) ;** and
 - (b) the consideration of a rebate of this tax included in the amount of an expense deducted in computing that income or the capital cost of the property (section 38) ;
2. the amendments to the computation of a benefit required to be included in computing the income of a shareholder in a corporation with respect to the introduction of the GST (section 41) ;
3. the determination, with respect to the introduction of the GST, of the value of the taxable benefit resulting from a car being made available to a member of a partnership (section 40) ;

** The notes between parentheses refer to the sections of Bill C-62 on the goods and services tax.

4. the precisions brought to the reimbursements, contributions, allowances and assistance received by a taxpayer in respect of an outlay (section 40) ;
5. the choice with respect to the reduction of an outlay or expense, other than an outlay or expense regarding the cost of property, when the reimbursements, contributions, allowances or assistance which would otherwise be included in computing the taxpayer's income are received with respect to the outlay or expense (section 40) ;
6. the amounts repaid by a taxpayer with respect to an outlay or expense, which are excluded from the taxpayer's income computation by the application of the measure provided for in No. 5 above (section 42) ;
7. the exceptions introduced with respect to the deduction granted a taxpayer with respect to assistance or a benefit received as a deduction from or reimbursement of an expense that is a tax or royalty (section 42) ;
8. the inclusion in the cumulative Canadian exploration expense, the cumulative Canadian development expense and the cumulative Canadian oil and gas property expense of amounts repaid pursuant to a legal obligation (section 43) ;
9. the amendments related to reimbursements made by a taxpayer to another person with respect to dues receivable by Her Majesty (section 46) ;
10. the inclusion of the definition of the goods and services tax (section 54) ;
11. the rule whereby the amount of the GST for which a taxpayer is liable in respect of a change of use of a property be included in the cost of the property for income tax purposes (section 54) ;
12. the rule whereby the amounts received by a taxpayer or credited to him as an input tax credit or rebate with respect to the GST are deemed to be assistance received from a government (section 54) ; and
13. the rule whereby an amount added to the computation of the net tax of a taxpayer under Part IX of the Excise Tax Act in respect of an input tax credit that had been previously deducted in determining the net tax is deemed to be assistance repaid (section 54).

8.4 Measures announced by the federal Minister of Finance in press releases

New rules concerning the leasing of property

On February 2, 1990, the federal Minister of Finance issued a press release (90-017) *** concerning a revised draft regulation on technical amendments to the provisions on leasing in which he announced the termination of the moratorium on sale and leaseback transactions within federal jurisdiction, which had been introduced on June 6, 1988. The Québec taxation system will be harmonized with this revised draft regulation and the end of the moratorium applicable for Québec tax purposes, and adapted in terms of its general principles.

Amendments to the replacement property rules

On April 2, 1990, the federal Minister of Finance issued a press release (90-041) *** in which he announced amendments to the replacement property rules restricting the benefits of the rules to replacement property located in Canada. Québec's tax legislation and regulations will be amended, on the basis of their general principles, to include these amendments. However, these measures of concordance will not be adopted until all federal laws and regulations deriving from this press release have been assented to, and will be applicable at the same date as they are applied for federal tax purposes.

*** Federal Department of Finance press release number.

9. Summary of the financial impact of fiscal and budgetary measures

FINANCIAL IMPACT OF FISCAL AND BUDGETARY MEASURES 1990-1991 BUDGET SPEECH (in millions of dollars)

	Impact on tax burden and disposable income		Financial impact for the gouvernement du Québec		
	1990	1991	1990-1991	1991-1992	1992-1993
FISCAL MEASURES					
1. Support for the economy					
Five-year road investment plan :					
RAAQ payments	—	—	150	150	150
Additional deductions for mining exploration expenses incurred in Québec	—	- 13	—	—	- 18
Subtotal	—	- 13	150	150	132
2. Skilled manpower training					
Refundable manpower training tax credit	- 67	- 102	- 67	- 100	- 108
3. Meeting the environmental challenge	—	—	—	—	—
4. Improving individual taxation and assisting families					
Indexing of tax system and of family allowances	—	- 312	- 54	- 236	- 342
Increased allowances for newborn children	- 14	- 19	- 19	- 19	- 20
Increase in property tax refund	- 6	- 6	—	- 6	- 6
Subtotal	- 20	- 337	- 73	- 261	- 368
5. Measures respecting revenue					
Increase in business surtax	55	86	104	119	128
Consumption taxes :					
— Alcoholic beverages	74	106	103	107	107
— Tobacco	98	177	133	192	204
Subtotal	227	369	340	418	439
Total impact of measures on revenue	140	- 83	350	207	95

Note : A negative entry indicates a drop in the tax burden or an increase in disposable income, and a cost to the government. Individual entries are rounded off and may not correspond to totals.

FINANCIAL IMPACT OF FISCAL AND BUDGETARY MEASURES
1990-1991 BUDGET SPEECH
(in millions of dollars)

	Impact on tax burden and disposable income		Financial impact for the gouvernement du Québec		
	1990	1991	1990-1991	1991-1992	1992-1993
BUDGETARY MEASURES					
1. Support for the economy					
Accelerated public sector investment plan	—	—	—	-23	-28
Five-year road investment plan	—	—	-153	-237	-371
Assistance for business financing and combinations	—	—	-1	-2	-2
Office de planification et de développement du Québec	—	—	-5	-5	—
Assistance for the mining industry	—	—	-1	-3	—
Private and public forest development	—	—	-5	—	—
Tourism promotion assistance	—	—	-6	-6	-6
Fishing industry restructuring plan	—	—	-10	-10	-10
Seasonal jobs in Gaspésie and Îles-de-la-Madeleine	—	—	-6	—	—
Subtotal	—	—	-187	-286	-417
2. Skilled manpower training	—	—	—	—	—
3. Meeting the environmental challenge					
Environmental research and development	—	—	-10	-10	-10
4. Improving individual taxation and assisting families					
Indexing of EI and PWA program scales	—	-63	-16	-63	-67
Increased maternity allowance	-3	-6	-5	-6	-6
Downpayment Assistance Program	-1	-2	-2	-2	-2
Subtotal	-4	-71	-23	-71	-75
5. Impact on expenditure of measures respecting revenue					
Increase in business surtax	—	—	-12	-14	-15
6. Change in calculation of interest on refunds from the ministère du Revenu					
	—	—	5	7	7
Impact of measures on expenditure	-4	-71	-227	-374	-510
Less : measures already integrated into appropriations	—	—	207	—	—
Net impact of measures on expenditure	-4	-71	-20	-374	-510
NET IMPACT OF FISCAL AND BUDGETARY MEASURES	136	-154	330	-167	-415

Note : A negative entry indicates a drop in the tax burden or an increase in disposable income, and a cost to the government. Individual entries are rounded off and may not correspond to totals.



APPENDIX B

Medium-Term Outlook for the Québec Government's Financial Position

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Introduction

Appendix B outlines the Québec government's medium-term budgetary and financial forecasts, making it possible to assess the change in the government's revenue, expenditure, deficit, net financial requirements and main financial indicators on the basis of the economic assumptions and fiscal and budgetary policies in this year's Budget Speech.

Medium-term financial framework

Deficit increase in 1990-1991 to attenuate impact of economic slowdown

The 1990-1991 Budget Speech was prepared in the context of an economic slowdown. To reduce the impact of this slowdown and given the negative effect of the federal government's recent budget on the Québec government's financial framework, the target deficit for 1990-1991 has been increased to \$ 1 750 000 000. However, with more sustained growth expected beginning in 1991, the deficit should be decreased to \$ 1 600 000 000 in 1991-1992 and to \$ 1 400 000 000 in 1992-1993.

SUMMARY OF FINANCIAL TRANSACTIONS (in millions of dollars)

	1985-1986	1986-1987	1987-1988	1988-1989	1989-1990	1990-1991	1991-1992	1992-1993
Budgetary transactions								
Own-source revenue	17 762.6	19 487.4	21 953.9	23 344.3	24 424.0	26 855.0	29 231.0	31 285.0
Federal transfers	6 221.0	5 872.1	6 175.9	6 450.5	6 727.0	6 746.0	6 694.0	6 715.0
Budgetary revenue	23 983.6	25 359.5	28 129.8	29 794.8	31 151.0	33 601.0	35 925.0	38 000.0
Budgetary expenditure	- 27 327.5	- 28 178.7	- 30 504.0	- 31 408.0	- 32 751.0	- 35 351.0	- 37 525.0	- 39 400.0
Budgetary deficit	- 3 343.9	- 2 819.2	- 2 374.2	- 1 613.2	- 1 600.0	- 1 750.0	- 1 600.0	- 1 400.0
Non-budgetary transactions								
Investments, loans and advances	40.4	- 379.7	- 680.3	- 669.5	- 579.0	- 649.0	- 1 121.0	- 1 541.0
Retirement plans account	1 269.0	1 354.8	2 203.0	1 634.0	1 196.0	1 870.0	2 057.0	2 257.0
Provision for financing the water purification program	4.3	9.8	12.2	14.9	- 4.0	1.0	17.0	12.0
Other accounts	290.2	83.7	- 539.8	- 325.1	222.0	- 247.0	- 3.0	172.0
Balance	1 603.9	1 068.6	995.1	654.3	835.0	975.0	950.0	900.0
Net financial requirements	- 1 740.0	- 1 750.6	- 1 379.1	- 958.9	- 765.0	- 775.0	- 650.0	- 500.0

Net financial requirements should total \$ 775 000 000 in 1990-1991, \$ 650 000 000 in 1991-1992 and \$ 500 000 000 in 1992-1993. This increase in net financial requirements compared with last year's objectives is a result, on the one hand, of the increase in the expected deficit and, on the other, of the fact that Hydro-Québec is not expected to pay dividends to the government in the coming years.

Budgetary revenue

Slightly higher growth in revenue than in GDP

When the tax structure remains unchanged, own-source revenue increases at about the same rate as the GDP. Given the stagnation of federal government transfers, total budgetary revenue generally increases more slowly than the GDP.

However, the average growth rate of budgetary revenue during the forecast period will be slightly higher than that of the GDP, owing mainly to the faster change in own-source revenue, particularly in 1990-1991.

Own-source revenue

The average annual growth rate of own-source revenue during the forecast period should be 8.6 %. There are two main reasons for the 10 % increase in own-source revenue in 1990-1991. First, this marked rise is the result of the small growth in personal income tax recorded in 1989-1990. This slowdown is a result of the impact of income tax reductions announced in May 1988, which led to lower deductions at source during all of 1989-1990 and higher refunds to taxpayers in early 1989-1990. The continuation of the accelerated refund program of the ministère du Revenu, which resulted in significant refunds in March 1990, also contributed to the decrease in revenue for 1989-1990. Second, the expected growth in own-source revenue for 1990-1991 and the years following reflects the implementation of tax measures provided for in the Budget and the distribution over time of their impact.

CHANGE IN BUDGETARY REVENUE (in millions of dollars)

	1985-1986	1986-1987	1987-1988	1988-1989	1989-1990	1990-1991	1991-1992	1992-1993
Own-source revenue	17 762.6	19 487.4	21 953.9	23 344.3	24 424.0	26 855.0	29 231.0	31 285.0
% change	—	9.7	12.7	6.3	4.6	10.0	8.8	7.0
Federal transfers	6 221.0	5 872.1	6 175.9	6 450.5	6 727.0	6 746.0	6 694.0	6 715.0
% change	—	- 5.6	5.2	4.4	4.3	0.3	- 0.8	0.3
Budgetary revenue	23 983.6	25 359.5	28 129.8	29 794.8	31 151.0	33 601.0	35 925.0	38 000.0
% change	—	5.7	10.9	5.9	4.6	7.9	6.9	5.8
GDP growth rate in % *	6.9	8.6	11.8	9.9	6.3	5.7	6.4	7.4

* For the calendar year ending three months before the end of the fiscal year under consideration.

Federal transfers

On a cash basis, income from federal transfers is affected by adjustments to previous years subsequent to the review of data used to pay advances. This may cause considerable annual variations, making it more difficult to analyse the change in payments. Looking at federal transfers on an accrual basis, and thus including all payments pertaining to a given year regardless of the fiscal year in which they were received, makes it possible to eliminate these variations and gives a more accurate picture of the actual change in federal government transfers.

CHANGE IN REVENUE FROM FEDERAL TRANSFERS (in millions of dollars)

	1985-1986	1986-1987	1987-1988	1988-1989	1989-1990	1990-1991	1991-1992	1992-1993
Transfer revenue	6 221.0	5 872.1	6 175.9	6 450.5	6 727.0	6 746.0	6 694.0	6 715.0
% change	—	- 5.6	5.2	4.4	4.3	0.3	- 0.8	0.3
Adjustment to attribute amounts received to the appropriate year	- 177.3	190.9	150.5	120.6	- 99.7	- 173.4	- 148.9	- 36.7
Transfers on an accrual basis	6 043.7	6 063.0	6 326.4	6 571.1	6 627.3	6 572.6	6 545.1	6 678.3
% change	—	0.3	4.3	3.9	0.9	- 0.8	- 0.4	2.0

Federal government transfers increase by only 0.3 % a year

On an accrual basis, the levelling-off of transfers observed since the mid-1980s will continue over the forecast period. The average annual increase in federal government cash transfers is estimated at 0.3 % between 1989-1990 and 1992-1993, compared with 1.8 % between 1984-1985 and 1989-1990.

Two factors mainly account for this levelling-off of transfer payments to Québec :

First, the two-year freeze on the federal contribution per capita to health and post-secondary education (Established Programs Financing) will lead to a more marked drop in cash transfers (17 % annually for the next three fiscal years) under this program. Successive cutbacks in the financing of established programs since 1982-1983, coupled with the cutback announced in the recent federal budget, will create a total shortfall for the Québec government of \$ 1 300 000 000 in fiscal 1990-1991.

Second, contributions to welfare programs, for which the federal government pays 50 % of eligible expenditures, will rise slowly given the foreseeable change in clientele and Québec's efforts to streamline income security programs and improve the employability of welfare recipients.

Share of federal transfers in total revenue continues to drop

The stagnation in federal government cash transfers will result in a gradual decrease in federal transfer payments in proportion to budgetary revenue as a whole. The share of budgetary revenue attributed to federal transfers will drop to 17.7 % in 1992-1993, down from a peak of 28.9 % recorded in 1983-1984.

Budgetary expenditure

Control of expenditure

As indicated in Appendix E on public finances, tight spending control has allowed the Québec government to improve the state of its finances as well as restore the competitiveness of its tax system.

To consolidate these accomplishments, the government intends to pursue its efforts. The growth rate in expenditure should be 6.3 % in 1990-1991, 5.6 % in 1991-1992 and 5.0 % in 1992-1993.

CHANGE IN BUDGETARY EXPENDITURE (in millions of dollars)

	1985-1986	1986-1987	1987-1988	1988-1989	1989-1990	1990-1991	1991-1992	1992-1993
Budgetary expenditure	- 27 327.5	- 28 178.7	- 30 504.0	- 31 408.0	- 32 751.0	- 35 351.0	- 37 525.0	- 39 400.0
% change	—	3.1	8.3	3.0	4.3	7.9	6.1	5.0
Expenditure pre-recorded								
1987-1988	—	—	848.8	- 624.4	- 224.4	—	—	—
1988-1989	—	—	—	636.5	- 636.5	—	—	—
1989-1990	—	—	—	—	183.0	- 183.0	—	—
Expenditure on a comparable basis	- 27 327.5	- 28 178.7	- 29 655.2	- 31 395.9	- 33 428.9	- 35 534.0	- 37 525.0	- 39 400.0
% change	—	3.1	5.2	5.9	6.5	6.3	5.6	5.0
GDP growth rate in % *	6.9	8.6	11.8	9.9	6.3	5.7	6.4	7.4
Canadian inflation rate in % *	4.0	4.1	4.4	4.1	5.0	4.8	5.7 ¹	4.3

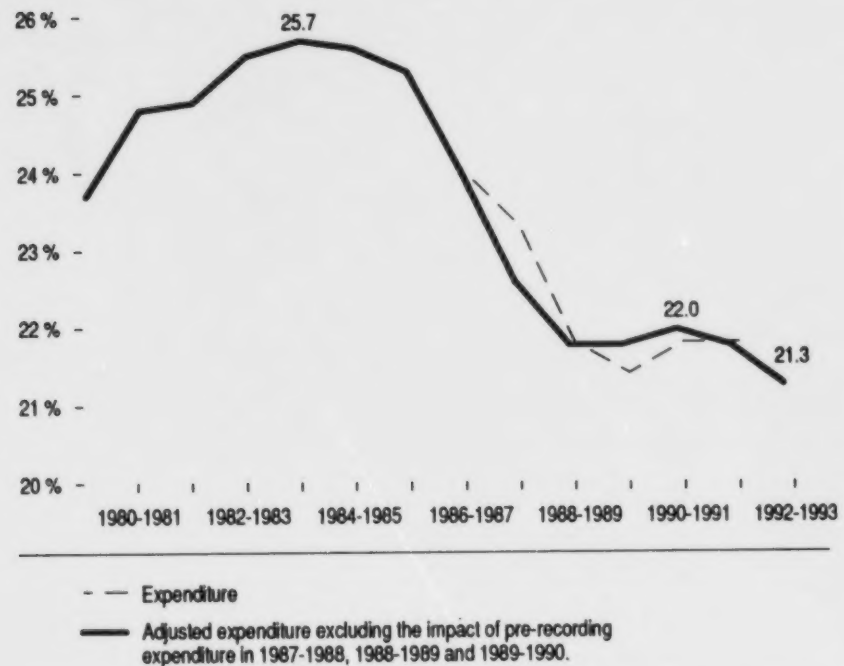
* For the calendar year ending three months before the end of the fiscal year under consideration.

¹ Rate of 4.5 %, excluding the effect of the GST.

Expenditure accounts for smaller share of GDP

Thus, after a slight rise owing mainly to the slowdown in the economy, spending is expected to continue to account for an increasingly smaller share of the GDP. In 1992-1993, the expenditure / GDP ratio will be 21.3 %, compared with a peak of 25.7 % in 1983-1984.

BUDGETARY EXPENDITURE (as a percentage of GDP)



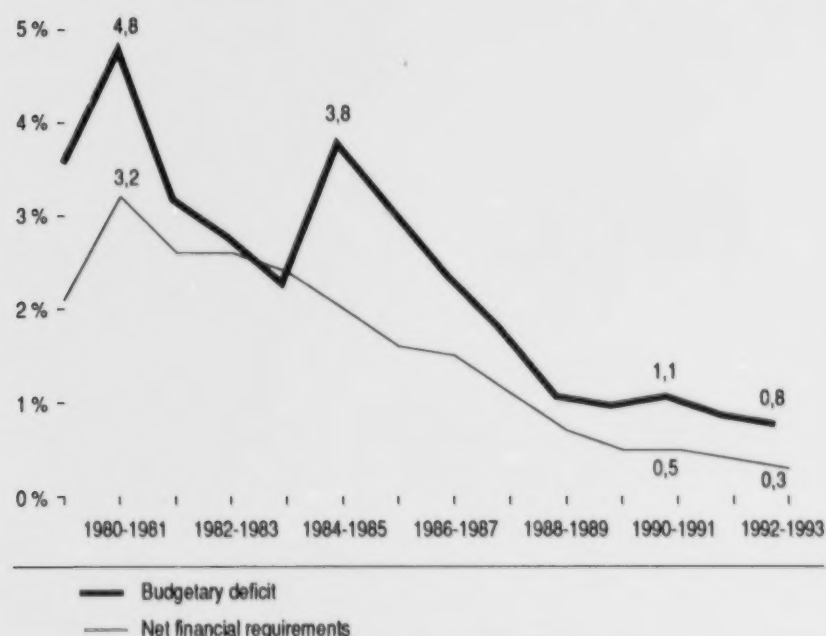
Main financial indicators

Budgetary deficit

Deficit /GDP ratio to fall in forecast period

The increase in the budgetary deficit to \$ 1 750 000 000 in 1990-1991 will result in a slight rise in the budgetary deficit / GDP ratio, which should reach 1.1 %. However, in 1991-1992 and 1992-1993, with deficits forecast at \$ 1 600 000 000 and \$ 1 400 000 000 respectively, this ratio should fall to 0.9 % and 0.8 % respectively.

BUDGETARY DEFICIT AND NET FINANCIAL REQUIREMENTS (as a percentage of GDP)



Net financial requirements

Non-budgetary transactions will continue to constitute a source of financing that will reduce the government's need to borrow on financial markets. The surplus of the retirement plans account, which will be \$ 1 870 000 000 in 1990-1991, should total \$ 2 257 000 000 in 1992-1993. On the other hand, the change in loans, investments and advances will increase financial requirements to \$ 1 541 000 000 in 1992-1993, up from \$ 649 000 000 in 1990-1991. This increase reflects the anticipated change in the net profit of government corporations consolidated with budgetary revenue with no corresponding dividend payment. The overall non-budgetary transactions balance will rise from \$ 835 000 000 in 1989-1990 to \$ 900 000 000 in 1992-1993.

Decrease of \$ 275 000 000 in net financial requirements

Given the change in the deficit and in the non-budgetary transactions balance, the Québec government's net financial requirements will be \$ 775 000 000 in 1990-1991, \$ 650 000 000 in 1991-1992 and \$ 500 000 000 in 1992-1993. From 0.5 % in 1989-1990 and 1990-1991, the net financial requirements / GDP ratio is expected to be 0.4 % for 1991-1992 and 0.3 % for 1992-1993.

Debt

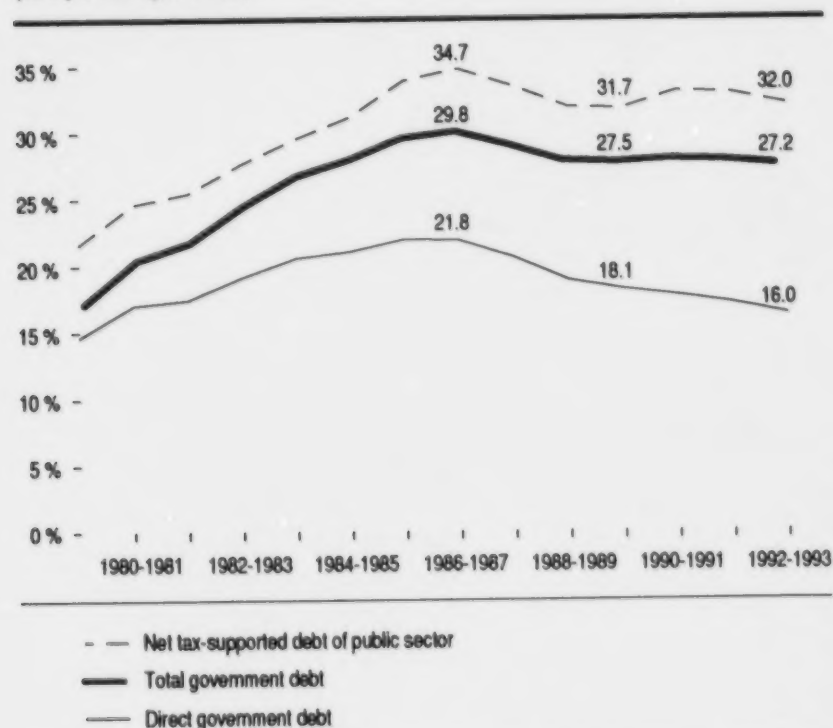
Decrease in direct debt / GDP ratio

The levelling-off of net financial requirements in 1990-1991 followed by a drop will allow the government to continue diminishing the relative importance of its direct debt.

The direct debt / GDP ratio should be 16.0 % at the end of fiscal 1992-1993, down from the 18.1 % recorded at the end of fiscal 1989-1990. The direct debt is composed of the long-term debt and Treasury bills.

The total government debt, which includes the direct debt and public and parapublic sector employees' retirement plans account balance, will continue to decline in relation to the GDP after recording a slight increase in 1990-1991, to reach 27.2 % at the close of 1992-1993.

GOVERNMENT AND PUBLIC SECTOR DEBT AT THE END OF THE FISCAL YEAR¹ (as a percentage of GDP)



¹ Excluding the impact of pre-recording expenditures.

Finally, the proportion of the public sector's net tax-supported debt to the economy will rise slightly in 1990-1991 before decreasing to 32.0 % at the close of fiscal 1992-1993. This debt includes the total government debt, the debt of the education and health and social services networks as well as the debt of the local sector, minus the net value of government investments in its enterprises.

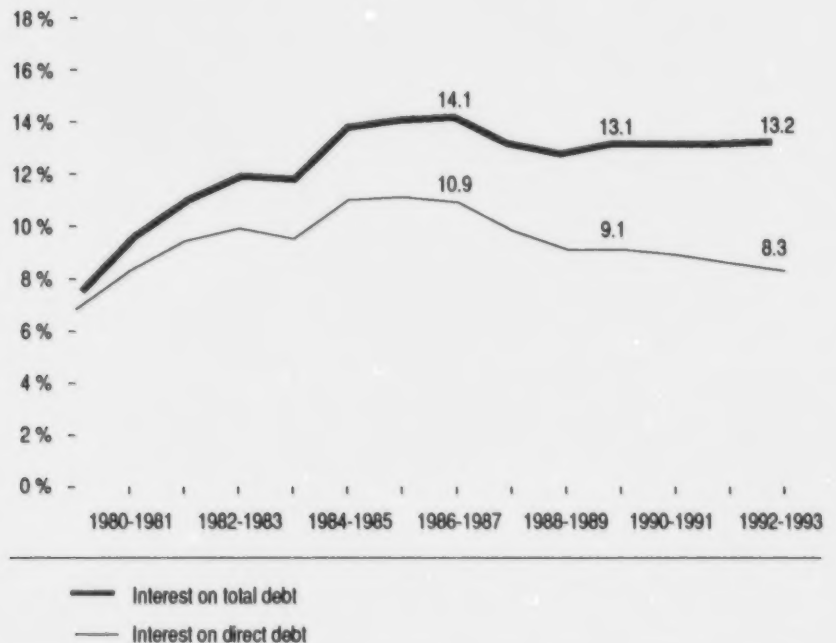
Interest costs

The share of budgetary revenue devoted to interest payments on the direct debt will continue to drop during the forecast period from 9.1 % in 1989-1990 to 8.3 % in 1992-1993.

Stabilization in the share of budgetary revenue allocated to interest payments on the total debt

The proportion of budgetary revenue used to pay interest on the total debt will be just over 13 %.

INTEREST COSTS¹ (as a percentage of budgetary revenue)



¹ Excluding the impact of pre-recording expenditures.

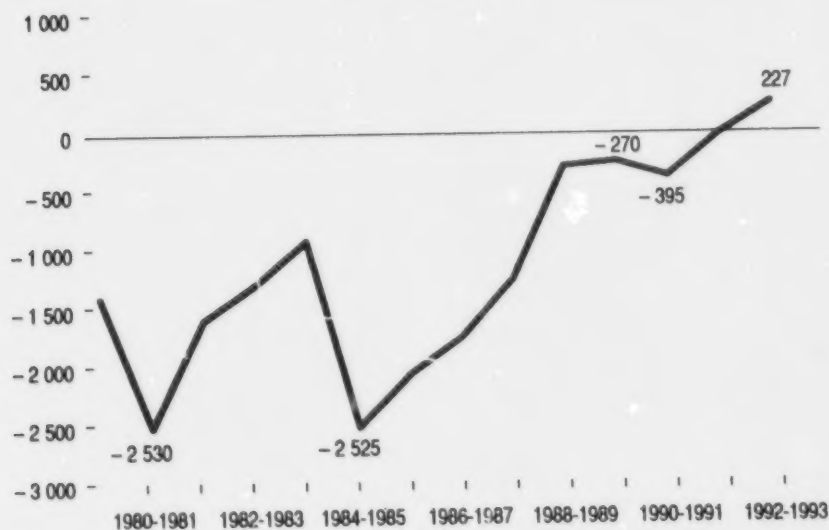
Current account balance

Balancing the current account remains one of the government's primary medium-term objectives. A deficit in the current account means that part of the cost of government services provided the current generation is transferred to future generations.

Surplus in current account in 1992-1993

Beginning in 1992-1993, the budgetary deficit will be less than the capital spending recorded during the year, such that the current account will show a surplus for the first time since fiscal 1977-1978.

CURRENT ACCOUNT BALANCE¹ (in millions of dollars)



¹ The current account balance is the difference between the budgetary deficit and capital spending.

Conclusion

In light of the current economic situation, the Québec government must pause in its reduction of the deficit in order to attenuate the impact of the economic slowdown. The deficit will therefore be \$ 1 750 000 000 in 1990-1991, but is then expected to begin decreasing again in 1991-1992. In addition, the government forecasts a surplus in the current account as of 1992-1993.

APPENDIX C

The Government's Financial Position and Borrowings in the Public Sector

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The government's financial transactions

A \$ 1 600 000 000 deficit

The preliminary results of the government's financial transactions for the year ending March 31, 1990 show a \$ 1 600 000 000 deficit in budgetary transactions, whereas a deficit of \$ 1 500 000 000 was forecast in the Budget Speech of May 16, 1989. The deficit in budgetary transactions is, however, \$ 13 200 000 less than in 1988-1989.

Budgetary revenue for the 1989-1990 fiscal year was \$ 133 000 000 more than forecast. Federal transfers increased by \$ 165 000 000 while own-source revenue decreased by \$ 32 000 000 compared with the figure anticipated in May 1989.

Budgetary expenditure for the current year is \$ 50 000 000 more than anticipated. However, as it did in the two preceding fiscal years, the government decided to pay certain social security benefits totalling \$ 183 000 000 on the last working day of March so that beneficiaries could cash them immediately, instead of on Sunday, April 1, 1990. The budgetary deficit was therefore increased by \$ 100 000 000 compared with the initial estimates.

Net financial requirements
down \$ 193 900 000 compared
with the previous year

Net financial requirements were \$ 765 000 000, \$ 193 900 000 lower than the previous year but \$ 15 000 000 higher than the initial estimate. This variation reflects the combined impact of the \$ 100 000 000 rise in the deficit and the \$ 85 000 000 increase in non-budgetary transactions, compared with the levels anticipated in the last Budget.

With respect to financing, the change in direct debt for the 1989-1990 fiscal year amounted to \$ 732 000 000, a reduction of \$ 18 000 000 compared with the \$ 750 000 000 anticipated in the Budget Speech of May 16, 1989. This variation, combined with the slight increase in net financial requirements, resulted in a \$ 33 000 000 reduction in the government's cash position in 1989-1990.

GOUVERNEMENT DU QUÉBEC
SUMMARY OF FINANCIAL TRANSACTIONS
(in millions of dollars)

	1988-1989	1989-1990		
	Real results	Budget Speech 1989-05-16	Preliminary results ¹	Changes
Budgetary transactions				
Revenue	29 794.8	31 018.0	31 151.0	133.0
Expenditure for the current year	- 31 408.0 ¹	- 32 518.0	- 32 568.0	- 50.0
Expenditure for the subsequent year pre-recorded in 1989-1990	—	—	- 183.0	- 183.0
Deficit	- 1 613.2	- 1 500.0	- 1 600.0	- 100.0
Non-budgetary transactions				
Investments, loans and advances	- 669.5	- 740.0	- 579.0	161.0
Retirement plans account	1 634.0	1 370.0	1 196.0	- 174.0
Provision for financing the water purification program	14.9	- 2.0	- 4.0	- 2.0
Other accounts	- 325.1	122.0	222.0	100.0
Balance	654.3	750.0	835.0	85.0
Net financial requirements	- 958.9	- 750.0	- 765.0	- 15.0
Financing				
Change in cash position	20.8	—	33.0	33.0
Change in direct debt	938.1	750.0	732.0	- 18.0
Total financing	958.9	750.0	765.0	15.0

Note : A negative entry indicates a financial requirement and a positive entry, a source of financing. For the change in cash position, a negative entry indicates an increase and a positive entry, a decrease.

1 Including \$ 636 500 000 for expenditure for the subsequent year pre-recorded in 1988-1989.

2 The financial data for 1989-1990 shown in this table are based on results recorded from April 1989 to February 1990, and on an estimate, as at April 2, 1990, of revenue and expenditure to be posted, up to the closing of the books, to 1989-1990 transactions, in keeping with the accounting practices in effect.

Budgetary revenue

Revenue up 4.6 %

For the 1989-1990 fiscal year, budgetary revenue totals \$ 31 151 000 000, a 4.6 % increase compared with 5.9 % the previous year. Own-source revenue has grown by 4.6 %, while federal transfers have risen by 4.3 %. Budgetary revenue is \$ 133 000 000 higher than forecast in the Budget Speech of May 16, 1989, a change resulting from the \$ 165 000 000 increase in Government of Canada transfers, combined with a \$ 32 000 000 drop in own-source revenue.

SUMMARY OF THE EVOLUTION OF OWN-SOURCE REVENUE (in millions of dollars)

	1988-1989	1989-1990			
	Real results	Budget Speech 1989-05-16	Preliminary results	Changes compared with Budget	Changes compared with 1988-1989 %
Personal income tax	9 895.5	10 067.0	10 293.0	226.0	4.0
Employer contributions to health services fund	2 159.5	2 437.0	2 470.0	33.0	14.4
Corporate taxes	1 580.9	1 711.0	1 876.0	165.0	18.7
Retail sales tax	4 281.2	4 557.0	4 487.0	- 70.0	4.8
Natural resources	118.0	136.0	108.0	- 28.0	- 8.5
Interest	258.8	374.0	244.0	- 130.0	- 5.7
Société des alcools du Québec	381.3	398.0	383.0	- 15.0	0.4
Hydro-Québec	619.0	640.0	565.0	- 75.0	- 8.7
Other government corporations	190.3	167.0	3.0	- 164.0	—
Other	3 859.8	3 969.0	3 995.0	26.0	3.5
Total own-source revenue	23 344.3	24 456.0	24 424.0	- 32.0	4.6

Several factors explain the \$ 32 000 000 reduction in own-source revenue. Personal income tax was \$ 226 000 000 higher than anticipated in the May 16, 1989 Budget Speech. This revision is attributable to the higher-than-expected increase in deductions at source in 1989-1990 and to the rise in tax payable in 1988 noted after taxpayers' returns were processed in 1989-1990.

The \$ 33 000 000 upward revision of employer contributions to the health services fund is attributable in particular to an adjustment in the breakdown of receipts from previous years into personal income tax, employer contributions to the health services fund and contributions to the Québec Pension Plan. The \$ 165 000 000 increase in corporate taxes is the result of remittances by corporations at the end of 1989-1990. In addition, the \$ 70 000 000 reduction in revenue from the retail sales tax reflects the evolution of taxable sales.

Revenue from natural resource duties decreased by \$ 28 000 000, mainly because of amendments to the Mining Duties Act last June. The amendments specified that refundable duty credits for losses are deducted from revenue rather than charged as expenditure. As part of the reform of administrative systems of the ministère du Revenu, deferment of the updating of interest on accounts receivable resulted in a reduction of \$ 130 000 000 in interest revenue.

Revenue from government corporations is \$ 254 000 000 lower than anticipated. The net earnings of Hydro-Québec were reduced by \$ 75 000 000 because of special measures the corporation had to implement as a result of low runoff. The \$ 15 000 000 reduction in the net earnings of the Société des alcools du Québec is the result of a drop in sales compared with initial estimates. Finally, the revenue anticipated for the other government corporations decreased by \$ 164 000 000, mainly because of the impact of the drop in the results of the Groupe MIL inc. on the net earnings of the Société générale de financement.

**SUMMARY OF THE EVOLUTION OF TRANSFERS
FROM THE GOVERNMENT OF CANADA**
(in millions of dollars)

	1988-1989	1989-1990			Changes compared with 1988-1989 %
	Real results	Budget Speech 1989-05-16	Preliminary results	Changes compared with Budget	
Equalization	3 511.0	3 392.0	3 708.0	316.0	5.6
Other transfers related to fiscal arrangements	1 653.2	1 666.0	1 668.0	2.0	0.9
Contributions to welfare programs	1 037.3	1 116.0	1 143.0	27.0	10.2
Other programs	249.0	388.0	208.0	- 180.0	- 16.5
Total Government of Canada transfers	6 450.5	6 562.0	6 727.0	165.0	4.3

In regard to federal transfers, the preliminary results show an increase of \$ 165 000 000 in revenue compared with last May's Budget.

The \$ 316 000 000 rise in equalization revenue is explained by an increase in provincial revenue subject to the program and by the updating of tax base data, which show weaker relative fiscal capacity in Québec for certain sources of revenue, notably personal income taxes.

Reductions in the other programs total \$ 180 000 000. This variation is mainly linked to modes of refunding the tax transfer related to the youth allowance program.

Expenditure \$ 50 000 000 more
than forecast

Budgetary expenditure

Preliminary results for budgetary expenditure in the current year amount to \$ 32 568 000 000 for fiscal 1989-1990, or \$ 50 000 000 more than forecast in the Budget Speech of May 16, 1989. This represents an annual growth of 3.7 %. However, by adjusting data to take into account the pre-recording in 1987-1988, 1988-1989 and 1989-1990 of certain expenditures that the government could normally have assumed only in future years, the annual rates of growth, on a comparable basis, become 6.5 % for 1989-1990 and 5.9 % for 1988-1989.

SUMMARY OF THE EVOLUTION OF EXPENDITURE (in millions of dollars)

	1989-1990		
	Budget Speech 1989-05-16	Preliminary results	Changes
EXPENDITURE FOR THE CURRENT YEAR			
Initial estimates	33 186.8	33 186.8	—
Plus :			
□ Supplementary estimates of June 19, 1989	240.4 ¹	240.4	—
□ Supplementary estimates of December 14, 1989		572.0	572.0
□ Supplementary estimates of March 21, 1990		— ³	—
□ Supplementary estimates authorized under specific legislative provisions		5.8	5.8
□ Overruns on permanent appropriations		74.8	74.8
Less :			
□ Transfers of budgetary appropriations to investments, loans and advances		— 9.6	— 9.6
□ Lapsed appropriations	— 804.4 ²	— 1 404.9	— 600.5
□ Change in the provision for losses on investments in share capital	— 104.8	— 97.3	7.5
Total expenditure for current year	32 518.0	32 568.0	50.0
Total 1988-1989 expenditure		31 408.0	
% change		3.7	
EXPENDITURE FOR THE SUBSEQUENT YEAR			
PRE-RECORDED IN 1989-1990		183.0 ³	
TOTAL EXPENDITURE RECORDED			
IN 1989-1990		32 751.0	

¹ Additional expenditures announced in the Budget Speech.

² Lapsed appropriations announced in the Budget Speech.

³ Supplementary estimates of \$ 183 000 000 were authorized on March 21, 1990. These estimates were intended for expenditure for the subsequent year pre-recorded in 1989-1990.

EVOLUTION OF BUDGETARY EXPENDITURE (in millions of dollars)

	1987-1988	1988-1989	1989-1990
Total expenditure	30 504.0	31 408.0	32 751.0
☐ Impact of pre-recording expenditure in :			
- 1987-1988	- 848.8	624.4	224.4
- 1988-1989	—	- 636.5	636.5
- 1989-1990	—	—	- 183.0
Expenditure on a comparable basis	29 655.2	31 395.9	33 428.9
% change		5.9	6.5

The \$ 50 000 000 rise in expenditure for the current year mainly reflects additional expenditure of \$ 572 000 000 arising out of supplementary appropriations voted last December and overruns of \$ 74 790 000 on permanent appropriations, \$ 35 100 000 of which were for provision for bad debts. These additional expenditures were largely offset by unexpended appropriations for certain expenditure items in the wake of, among other things, measures implemented by the government over the past year.

Supplementary appropriations voted by the National Assembly during the year served first to cover the \$ 240 438 000 in additional expenditure announced in the Budget Speech. They were also authorized in order to meet anticipated overruns of \$ 104 413 600 for social aid benefits, which were mainly the result of the upward revision of the number of recipients and social aid reform, of \$ 83 000 000 related to the acceleration of work to repair and improve the road system, and of \$ 64 948 600 in costs relating to health and social services programs.

Other appropriation needs identified included notably \$ 43 500 000 to cover expenditures related to the general election of September 1989 and \$ 174 900 000 related to the costs of negotiating collective labour agreements in the public and parapublic sectors ; preliminary results indicate that the amount is \$ 50 000 000 less. Additional expenditures of \$ 17 280 000 were also authorized when the government's contribution to the Régie des assurances agricoles du Québec was revised upward under the farm income stabilization insurance program.

Unexpended budgetary appropriations total \$ 1 414 500 000, \$ 9 600 000 of which were transferred to investments, loans and advances. The main elements in lapsed appropriations include a reduction of \$ 91 200 000 in the cost of direct debt service. This change is explained essentially by an appreciation of Canadian currency in relation to various foreign currencies.

Government contributions to retirement plans were \$ 494 000 000 less than allowed for in the appropriations. A total of \$ 282 000 000, reflecting the impact of pre-recording expenditures in 1988-1989 over and above those announced when the appropriations were tabled, was identified in the Budget Speech of May 16. The balance of the change is explained by three factors. First, interest expenditures were revised downward by \$ 123 000 000 in order to establish them on the basis of the amounts expected in the original amortization schedules for past service so that they would not be affected by pre-recorded amounts. The revision of actuarial valuations as at December 31, 1987 and the harmonization of schedules of actuarial surplus and deficiencies in amortization generated lapsed appropriations of about \$ 66 300 000. Finally, \$ 22 700 000 is notably attributable to a reduction in the government's contribution as an employer to current service, following a reduction in employee contributions.

Unexpended appropriations for the Technological Development Fund total \$ 53 500 000. The sizable amount of lapsed appropriations is explained by the lower-than-anticipated number of projects submitted in the start-up phase of the program. The operating costs of public elementary and secondary schools were below \$ 64 200 000 after revision of the results anticipated for previous years. The \$ 33 000 000 reduction in expenditures for manpower occupational training is explained by the use by occupational training commissions of their accumulated surpluses, by the economic situation, which affected the implementation of the training programs of businesses, and by the shrinking of the clientele.

The level of regular lapsed appropriations generated by the activities of the various departments explains the \$ 619 000 000 balance in lapsed appropriations, i.e. 1.8 % of the total appropriations authorized.

Furthermore, the additional recording of \$ 183 000 000 in social security benefits, which the government could only assume in the subsequent year, brings the total of expenditures recorded in 1989-1990 to \$ 32 751 000 000.

\$ 835 000 000 surplus in
non-budgetary transactions

Non-budgetary transactions

Preliminary results indicate that the surplus in non-budgetary transactions amounts to \$ 835 000 000, an increase of \$ 85 000 000 as compared with the forecast in the May 1989 Budget. This change is attributable in particular to a reduction in financing needs of \$ 161 000 000 under investments, loans and advances and an increase of \$ 100 000 000 in other non-budgetary accounts, partially offset by a reduction of \$ 174 000 000 in the retirement plans account surplus.

SUMMARY OF NON-BUDGETARY TRANSACTIONS (in millions of dollars)

	1989-1990		
	Budget Speech 1989-05-16	Preliminary results	Changes
Investments, loans and advances			
Enterprises of the gouvernement du Québec			
□ Share capital and invested capital	- 635.4	- 437.2	198.2
□ Loans and advances	- 69.9	- 167.7	- 97.8
Subtotal	- 705.3	- 604.9	100.4
Loans and advances to municipalities, municipal agencies, individuals, corporations and others	- 34.7	25.9	60.6
Total investments, loans and advances	- 740.0	- 579.0	161.0
Retirement plans account	1 370.0	1 196.0	- 174.0
Provision for financing the water purification program	- 2.0	- 4.0	- 2.0
Other accounts	122.0	222.0	100.0
Balance	750.0	835.0	85.0

Note: A negative entry indicates a financial requirement and a positive entry, a source of financing.

With respect to investments in the form of share capital and invested capital in government enterprises, the results indicate a drop of \$ 198 200 000 compared to initial forecasts. This is attributable mainly to the non-conversion of advances in share capital of Rexfor in the amount of \$ 49 600 000, since legislative amendments anticipated at the time of the Budget Speech did not materialize, and to the reduction of \$ 133 600 000 in the change in the equity value of investments in government enterprises. This reduction is mainly the result of lower net profits of government corporations, partially offset by a reduction in dividends paid to the government. The increase of \$ 97 800 000 in loans and advances is attributable, among other things, to the non-conversion of advances to Rexfor mentioned above, together with additional advances of \$ 66 300 000 to the Société de développement industriel du Québec to finance certain investment projects.

The reduction of \$ 60 600 000 in loans and advances to municipalities, municipal agencies, individuals, corporations and others arises mainly from the recording of a provision for bad debts of \$ 17 000 000 for student loans and the disposition of the note receivable of \$ 40 000 000 of Lantic Sugar Ltd.

The retirement plans account surplus amounts to \$ 1 196 000 000, down \$ 174 000 000 from the amount forecast in the Budget Speech. The change is attributable in particular to the decrease in expenditures posted to the account as employer contributions mentioned above and to a reduction of \$ 41 600 000 in benefits paid compared to initial forecasts.

Transactions related to other non-budgetary accounts essentially represent year-to-year variations in the accounts and accrued interest payable and receivable by the government. These accounts normally fluctuate on the basis of the overall volume of financial transactions and are subject to significant variations from year to year, that depend on the timing of collection and disbursement transactions. For 1989-1990, the balance of other accounts shows a source of financing of \$ 222 000 000, compared to the \$ 122 000 000 forecast in the Budget Speech. This improvement is due mainly to increases of \$ 185 000 000 and \$ 102 000 000 in outstanding cheques, and the accounts and accrued interest payable respectively. In addition, compared to the initial forecasts, there is an increase of \$ 95 000 000 in the balance of cash and negotiable securities in hand and outstanding deposits, and an increase of \$ 62 000 000 in the balance of accounts receivable.

Repayment of borrowings

Repayment of borrowings for fiscal 1989-1990 amounts to \$ 1 934 000 000, compared to \$ 2 249 000 000 last year. These preliminary results indicate an increase of \$ 574 000 000 over the forecast in the Budget Speech. This change is the result of two factors. First, given the possibility of renegotiating under more favourable conditions a number of borrowings already made, the government exercised its call privilege on certain borrowings not scheduled to fall due during the year. These transactions caused repayments of borrowings for 1989-1990 to rise by \$ 457 400 000. In addition, redemptions of savings bonds increased by \$ 125 000 000 to reach \$ 706 000 000, as a result of a higher-than-anticipated level of redemptions prior to maturity, in view of the evolution of interest rates on competing investment vehicles. Savings bonds outstanding as at March 31, 1990 amounted to \$ 2 089 000 000.

TOTAL SAVINGS BONDS OUTSTANDING (in millions of dollars)

Total outstanding as at March 31, 1989		2 360.5
Plus : 1988 issue	2.3 ¹	
1989 issue	<u>432.2²</u>	
		434.5
Less : Redemptions		706.0
Total outstanding as at March 31, 1990		2 089.0

1 Amount received after March 31, 1989 from the issue of \$ 454 698 000.

2 Amount received as at March 31, 1990, from the issue of \$ 434 636 500.

Government borrowings down
\$ 510 300 000

Financing

During fiscal 1989-1990, the Québec government borrowed \$ 2 722 300 000, a decrease of \$510 300 000 compared to the preceding year. This is the lowest amount of borrowings in nine years. Of this amount, \$ 2 264 900 000 was allocated to regular gross financing requirements and \$ 457 400 000 to optional refinancing transactions. Gross financial requirements, excluding optional refinancings, fell by \$ 378 000 000 in 1989-1990 compared to the preceding year.

The government carried out its borrowing program in 1989-1990 with the following objectives in mind : increasing the portion of the debt in Canadian dollars, reducing the portion in other currencies and keeping the average term to maturity for new borrowings above ten years.

The following table summarizes the borrowings made in 1989-1990 on the basis of these objectives.

SUMMARY OF BORROWINGS (in millions of dollars)

Market and currency	1989-1990			
	Gross borrowing requirements		Optional refinancing	
		%		%
Canadian dollar				
Canadian market				
☐ Public issues :				
Savings bonds	434.5	19.2		
Negotiable bonds	700.0	30.9		
Treasury bills	95.0	4.2		
☐ Private issues :				
Caisse de dépôt et placement du Québec	456.7	20.1	198.2	43.3
Other private borrowings	108.6	4.8		
Subtotal	1 794.8	79.2	198.2	43.3
Other currencies				
☐ Public issues :				
US market	343.8	15.2	259.2	56.7
☐ Private issues :				
Asian market (Australian dollar)	45.2	2.0		
Yen market	81.1	3.6		
Subtotal	470.1	20.8	259.2	56.7
Total	2 264.9	100.0	457.4	100.0

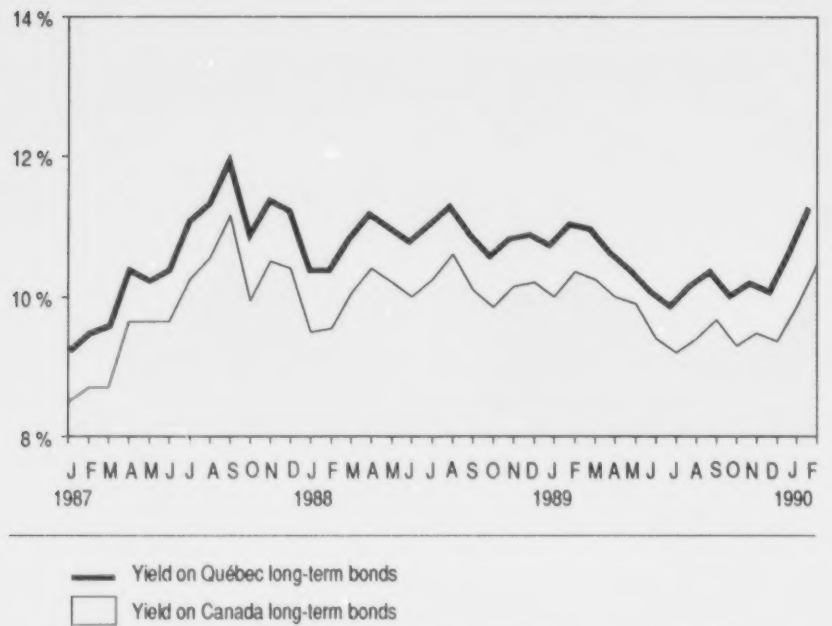
It is important to note that 79.2 % of gross borrowing requirements were realized in Canadian dollars. When borrowings contracted in foreign currencies and later converted into Canadian dollars through swap currency exchange contracts are taken into account, this figure rises to 84.8 %. In 1989-1990, the Canadian market satisfied 79.2 % of the province's gross financial requirements, up 8.5 percentage points from last year.

Optional repayments were refinanced in Canadian dollars and US dollars. The government's use of its call options allowed it to achieve certain debt management and cost reduction objectives established at the beginning of the fiscal year. Call options were exercised on five bond issues : two in yen, two in US dollars and one in Canadian dollars.

Terms of issue for Québec securities remained favourable in 1989-1990. Indeed, the Québec government was able to complete a loan of \$ 350 000 000 on the Canadian public market in a single tranche. In a situation in which fixed rate borrowing conditions on international markets had become difficult for most borrowers in recent months, the government completed an issue of US\$ 500 000 000, its largest ever on the US market. Finally, the average term to maturity of new borrowings stood at 12 years.

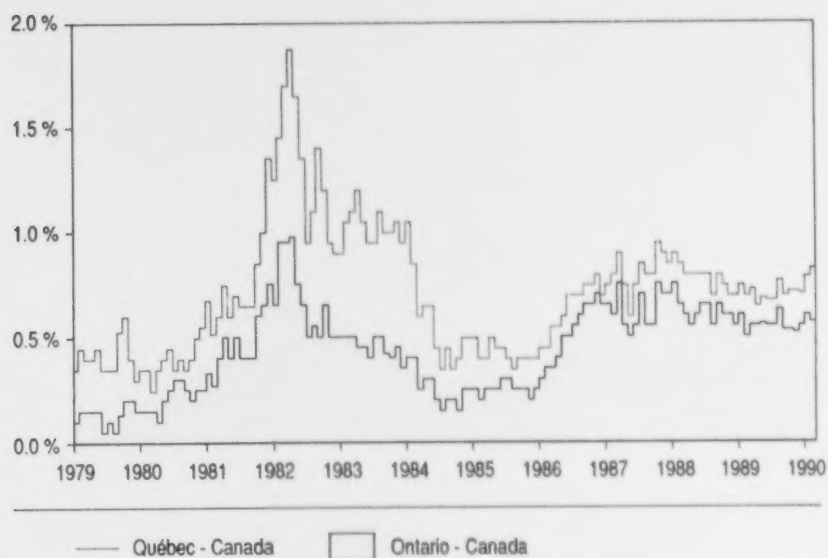
In fiscal 1989-1990, the yield spreads between Québec and Government of Canada securities with the same maturity followed the trend for other borrowers with comparable credit quality.

YIELD ON QUÉBEC AND CANADA LONG-TERM SECURITIES



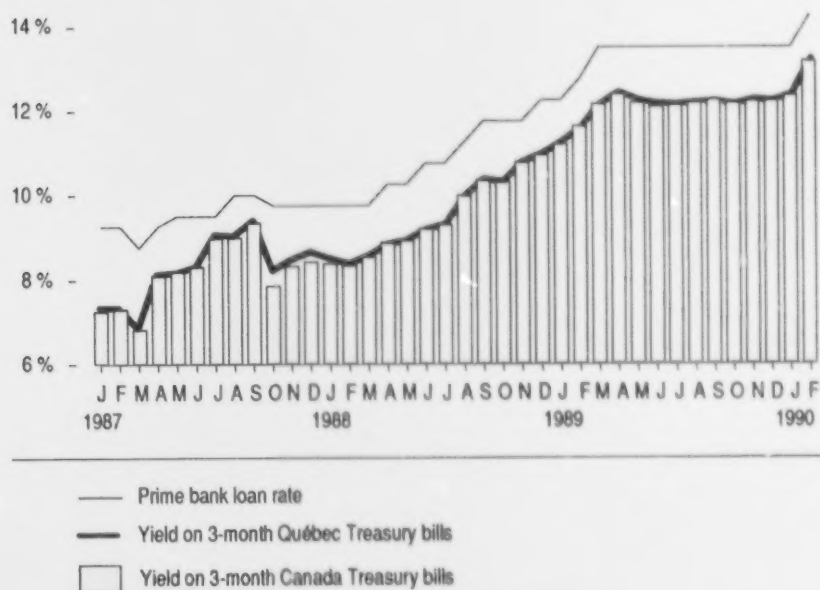
Source: RBC Dominion Securities Inc.

YIELD SPREADS ON LONG-TERM SECURITIES



Source: RBC Dominion Securities Inc.

YIELD ON SHORT-TERM SECURITIES



Sources: Bank of Canada and ministère des Finances du Québec.

Direct debt

Proportion of direct debt in Canadian dollars rises

The Québec government's direct debt, including outstanding Treasury bills, stood at \$ 27 704 000 000 as at March 31, 1990. The proportion of the debt in Canadian dollars rose in 1989-1990 from 70.4 % to 71.6 %, while the proportion in foreign currency fell to 28.4 %. During the same year, the proportion of the debt at fixed rates increased from 83.7 % to 84.9 %, while that at floating rates was 15.1 % at the end of the fiscal year.

However, certain interest rate and currency exchange transactions made by the government over the past few years have enabled it to alter the structure of its debt. The share of the government's commitments in Canadian dollars for the repayment of its debt was increased to 76.7 %, while the proportion of its commitments bearing interest at fixed rates stands at 84.2 %. Swap contracts were also used to reduce the share of commitments to be met in German marks and in US dollars.

The weighted average maturity of the government's total debt, excluding savings bonds and Treasury bills, fell from 10 years as at March 31, 1989 to 9.6 years as at March 31, 1990. Savings bonds outstanding fell during the year to \$ 2 089 000 000 as at March 31, 1990, i.e. 7.5 % of the government's total debt, while outstanding Treasury bills amount to \$ 1 800 000 000 or 6.5 % of the debt.

GOVERNMENT DIRECT DEBT PRELIMINARY RESULTS AS AT MARCH 31, 1990 (in millions of dollars)

Currency	Before exchange transactions		After exchange transactions	
		%		%
Canadian dollar	19 840	71.6	21 244	76.7
US dollar	4 398	15.9	3 229	11.7
Japanese yen	1 405	5.1	1 224	4.4
German mark	941	3.4	676	2.4
Swiss franc	664	2.4	1 021	3.7
Pound sterling	145	0.5	145	0.5
French franc	165	0.6	165	0.6
Australian dollar	146	0.5		
	27 704	100.0	27 704	100.0

Note: The debt in foreign currency is expressed in the Canadian equivalent, at the exchange rates effective as at March 31, 1990, except for borrowings under currency exchange contracts in Canadian dollars, which are expressed at the exchange rates specified in the contracts.

Long-term public sector borrowings drop
\$ 242 000 000

Public sector borrowings and investments

During the 1989 calendar year, gross long-term borrowings in the public sector totalled \$ 8 607 000 000, a decrease of \$ 242 000 000 compared with the preceding year. This reduction in gross borrowings is mainly attributable to the Québec government, while borrowings by Hydro-Québec and municipal agencies were up significantly. It should be noted that the borrowing programs for 1989 of educational institutions, health and welfare establishments and certain government corporations were delayed to varying degrees.

LONG-TERM PUBLIC SECTOR BORROWINGS (in millions of dollars)

	Calendar year					
	1984	1985	1986	1987	1988	1989 ¹
Gross borrowings						
Government ²	3 209	3 015	4 092	2 852	3 542	2 321
Educational institutions ³	791	688	668	657	717	504
Health and welfare establishments	134	212	148	280	389	122
Hydro-Québec ²	1 100	1 602	2 199	1 833	1 823	2 926
Other government corporations	599	1 397	1 103	623	690	742
Municipal agencies	1 201	1 330	1 451	1 770	1 688	1 992
Total	7 034	8 244	9 661	8 015	8 849	8 607
Repayments	3 470	4 007	5 242	5 051	4 933	5 193
Net borrowings	3 564	4 237	4 419	2 964	3 916	3 414

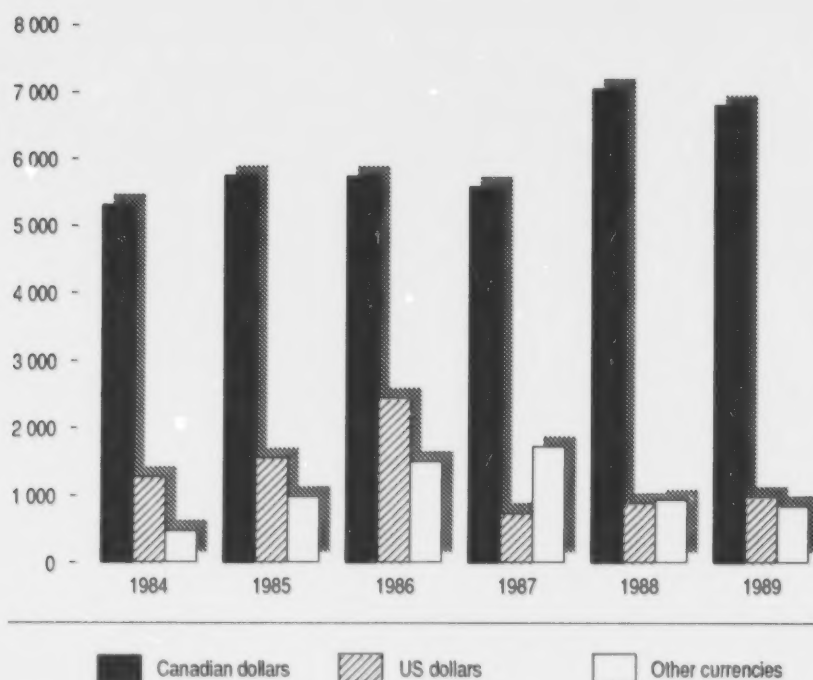
1 Preliminary results.

2 Amounts borrowed during the calendar year, excluding less-than-one-year net borrowings made as long-term financing transactions, which explains the difference between this list and the list of borrowings given later in this text.

3 Including all the universities in Québec.

Source: Ministère des Finances du Québec.

GROSS PUBLIC SECTOR BORROWINGS BY CURRENCY (in millions of dollars)

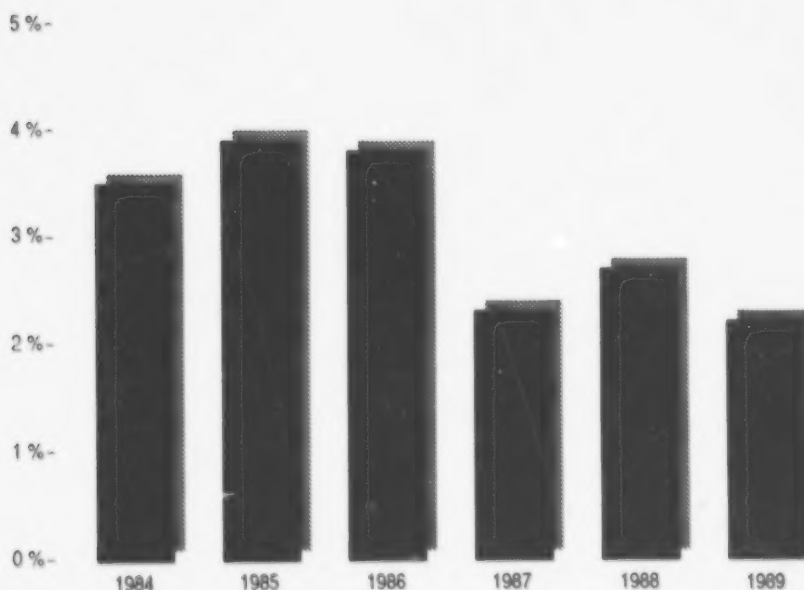


Source : Ministère des Finances du Québec.

Gross borrowings in Canadian dollars totalled \$ 6 804 000 000 in 1989, representing 79.0 % of total public sector borrowings. Borrowings in US dollars reached \$ 971 000 000 or 11.3 % of total gross borrowings, while those in other currencies amounted to \$ 832 000 000 or 9.7 % of the total.

Taking refinancings and repayments into account, net public sector borrowings are estimated at \$ 3 414 000 000 in 1989. The ratio of net borrowings to gross domestic product stood at 2.23 % in 1989, the lowest level recorded in six years.

NET PUBLIC SECTOR BORROWINGS COMPARED WITH GROSS DOMESTIC PRODUCT



Source : Ministère des Finances du Québec.

PUBLIC SECTOR INVESTMENTS
 (in millions of dollars)

	Calendar year					
	1984	1985	1986	1987	1988	1989 ¹
Government ²	847	822	664	708	809	979
Educational institutions ³	353	396	409	393	412	451
Health and welfare establishments ³	164	248	249	287	310	320
Hydro-Québec ⁴	1 681	1 615	1 537	1 688	2 107	2 465
Other government corporations ⁵	259	497	521	578	442	673
Municipal agencies ⁶	1 130	1 763	1 503	1 461	1 691	2 182
Total	4 434	5 341	4 883	5 115	5 771	7 070

1 Preliminary results.

2 Government investments include its capital expenditures as well as grants and loans for investments made available to economic agents outside the public sector. Financial investments within the public sector are excluded. Sources : The Estimates and Public Accounts.

3 Investments by school boards, colleges and universities and health and welfare establishments include only capital expenditures for new projects, as defined for the purposes of economic accounting. Source : Bureau de la statistique du Québec.

4 Source : Hydro-Québec.

5 Government corporation investments correspond to an increase in long-term assets. Investments of the Société québécoise d'assainissement des eaux are included under "municipal agencies". Sources : Financial statements of government corporations.

6 Investments by municipalities, urban and regional communities and transport commissions and corporations include only capital expenditures for new projects, as defined for the purposes of economic accounting. Source : Ministère des Finances du Québec.

In 1989, public sector investments amounted to \$ 7 070 000 000, an increase of 22.5 % compared with 1988. As the preceding table shows, this increase is primarily attributable to Hydro-Québec, municipal agencies and other government corporations.

In order to take into account the relation between the government's financial policy and the state of the various sectors under government jurisdiction, a comparative analysis of borrowings and investments must consider the situation of the public sector as a whole. Total net public sector borrowings include, in addition to the net long-term borrowings mentioned earlier, less-than-one-year net borrowings made as long-term financing transactions, including Treasury bills issued by the government, as well as borrowings from the government's retirement plans account.

TOTAL NET BORROWINGS AND INVESTMENTS BY THE PUBLIC SECTOR
(in millions of dollars)

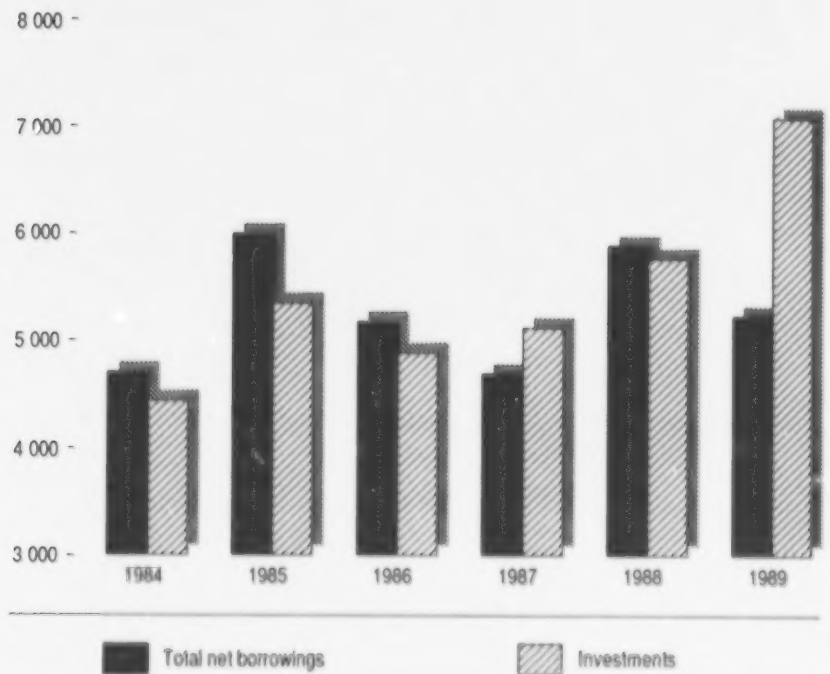
	Calendar year					
	1984	1985	1986	1987	1988	1989 ¹
Net long-term borrowings	3 564	4 237	4 419	2 964	3 916	3 414
Less-than-one-year net borrowings made as long-term financing transactions	- 20	506	- 561	224	- 40	189
Surplus from the government retirement plans account	1 153	1 247	1 313	1 498	2 005	1 622
Total net borrowings	4 697	5 990	5 171	4 686	5 881	5 225
Investments	4 434	5 341	4 883	5 115	5 771	7 070
Ratio	1.06	1.12	1.06	0.92	1.02	0.74

¹ Preliminary results.

Source: Ministère des Finances du Québec.

In 1989, the ratio of total net borrowings to investments stood at 0.74. Public sector investments were higher than net borrowings for the second time in the last three years.

TOTAL NET BORROWINGS AND INVESTMENTS BY THE PUBLIC SECTOR
(in millions of dollars)



Source : Ministère des Finances du Québec.

Historical data and preliminary results

GOVERNEMENT DU QUÉBEC SUMMARY OF FINANCIAL TRANSACTIONS (in millions of dollars)

	1965-1986	1986-1987	1987-1988	1988-1989	Preliminary results 1989-1990 ¹
1. Budgetary transactions¹					
Revenue	23 983.6	25 359.5	28 129.8	29 794.8	31 151.0
Expenditure	- 27 327.5	- 28 178.7	- 30 504.0 ⁴	- 31 408.0 ⁴	- 32 751.0 ⁴
Deficit	- 3 343.9	- 2 819.2	- 2 374.2	- 1 613.2	- 1 600.0
2. Non-budgetary transactions					
Investments, loans and advances	40.4	- 379.7	- 680.3	- 669.5	- 579.0
Retirement plans account	1 269.0	1 354.8	2 203.0	1 634.0	1 196.0
Provision for financing the water purification program	4.3	9.8	12.2	14.9	- 4.0
Other accounts	290.2	83.7	- 539.8	- 325.1	222.0
Balance	1 603.9	1 068.6	995.1	654.3	835.0
3. Net financial requirements	- 1 740.0	- 1 750.6	- 1 379.1	- 958.9	- 765.0
4. Financing					
Change in cash position	- 18.0	- 80.9	173.2	20.8	33.0
Change in direct debt ²	1 758.0	1 831.5	1 205.9	938.1	732.0
Total financing	1 740.0	1 750.6	1 379.1	958.9	765.0

Note: A negative entry indicates a financial requirement and a positive entry, a source of financing. For the change in cash position, a negative entry indicates an increase and a positive entry, a decrease. For comparison purposes, the data are shown on the basis of the budgetary and financial structure in force in 1990-1991.

1 The total revenue is made up of amounts credited to the consolidated revenue fund and to the health services fund, whereas expenditure includes the amounts charged to these two funds.

2 Including new borrowings and the change in the net debt resulting from the amortization of the variation in foreign exchange (see table on financing transactions), less repayments of borrowings, but excluding the unamortized portion of the variation in foreign exchange which has no effect on the government's financial transactions.

3 The financial data for 1989-1990 shown in this table are based on results recorded from April 1989 to February 1990, and on an estimate, as at April 2, 1990, of revenue and expenditure to be posted, up to the closing of the books, to 1989-1990 transactions, in keeping with the accounting practices in effect.

4 Including \$ 848 800 000, \$ 636 500 000 and \$ 183 000 000 in additional expenditures entered in 1987-1988, 1988-1989 and 1989-1990 respectively, which could have been charged to subsequent years.

GOUVERNEMENT DU QUÉBEC
BUDGETARY REVENUE
(in millions of dollars)

	1985-1986	1986-1987	1987-1988	1988-1989	Preliminary results 1989-1990
1. Income and property taxes					
Personal income tax	7 764.5	8 217.5	9 342.8	9 895.5	10 293.0
Employer contributions to health services fund	1 600.8	1 828.9	2 049.2	2 159.5	2 470.0
Corporate taxes ¹	1 082.0	1 216.9	1 472.0	1 580.9	1 876.0
Succession duties	30.5	9.2	— 1.0	2.3	—
	10 477.8	11 272.5	12 863.0	13 638.2	14 639.0
2. Commodity taxes					
Retail sales	3 175.7	3 624.3	4 016.3	4 281.2	4 487.0
Fuel	1 084.1	1 144.7	1 183.9	1 224.3	1 265.0
Tobacco	534.8	569.3	531.8	554.5	539.0
Meals and hotels	327.7	361.3	402.7	433.0	467.0
Other ²	126.9	138.8	149.1	156.4	168.0
	5 249.2	5 838.4	6 283.8	6 649.4	6 926.0
3. Duties and permits					
Motor vehicles	283.9	313.9	369.6	353.4	379.0
Alcoholic beverages	70.1	74.5	58.6	59.8	59.0
Natural resources ³	93.3	94.2	101.9	118.0	108.0
Pari-mutuel	26.4	27.0	26.8	23.1	21.0
Other	84.3	92.0	107.8	118.8	122.0
	558.0	601.6	664.7	673.1	689.0
4. Miscellaneous					
Sale of goods and services	207.9	264.4	231.9	239.7	254.0
Interest	214.7	245.8	214.6	258.8	244.0
Fines, confiscations and recoveries	116.3	159.4	244.2	265.8	276.0
	538.9	669.6	690.7	764.3	774.0
5. Revenue from government corporations⁴					
Société des alcools du Québec	356.8	360.7	370.1	381.3	383.0
Loto-Québec	302.7	360.4	380.0	428.7	445.0
Hydro-Québec	209.0	303.0	508.0	619.0	565.0
Other government corporations	70.2	81.2	193.6	190.3	3.0
	938.7	1 105.3	1 451.7	1 619.3	1 396.0
Total own-source revenue	17 762.6	19 487.4	21 953.9	23 344.3	24 424.0
6. Government of Canada transfers					
Equalization	2 854.1	2 747.8	3 090.7	3 511.0	3 708.0
Other transfers related to fiscal arrangements	1 941.7	1 821.9	1 682.0	1 653.2	1 668.0
Contributions to welfare programs	1 198.3	1 107.8	1 032.0	1 037.3	1 143.0
Other programs	226.9	194.6	371.2	249.0	208.0
Total Government of Canada transfers	6 221.0	5 872.1	6 175.9	6 450.5	6 727.0
Total budgetary revenue	23 983.6	25 359.5	28 129.8	29 794.8	31 151.0

1 Includes tax on corporate profits, on capital and the corresponding tax on premiums for insurance companies.

2 Includes tax on telecommunications and on electronic advertising.

3 Includes forest, mining and water resources.

4 Includes the dividends declared and the change in surpluses or deficits accumulated by government corporations, which are consolidated with a corresponding reevaluation of the investment held by the government.

GOUVERNEMENT DU QUÉBEC
BUDGETARY EXPENDITURE
(in millions of dollars)

Departments and agencies	1985-1986	1986-1987	1987-1988	1988-1989	Preliminary results 1989-1990
Affaires culturelles	184.7	175.9	196.6	227.1	239.0
Affaires internationales	78.5	75.7	84.6	86.8	90.5
Affaires municipales	614.4	650.4	583.9	562.7	622.2
Agriculture, Pêcheries et Alimentation	517.7	505.9	549.7	571.8	638.5
Approvisionnement et Services	40.5	47.4	45.6	49.7	51.2
Assemblée nationale	59.5	51.9	56.1	61.4	67.7
Corr.munautés culturelles et Immigration	27.9	27.7	32.3	37.9	45.2
Communications	199.4	196.4	181.9	113.4	111.9
Conseil du trésor	16.0	16.9	17.0	18.4	20.6
Conseil exécutif	47.4	33.9	34.3	39.1	40.4
Éducation	4 445.1	4 564.9	4 887.2	5 223.2	5 044.0
Énergie et Ressources	360.4	363.3	383.9	459.9	473.1
Enseignement supérieur et Science	2 284.8	2 399.9	2 596.4	2 757.7	2 848.4
Environnement	190.0	253.0	293.7	359.5	414.9
Finances	3 467.7	3 647.3	3 785.6	3 954.8	4 172.6
Industrie, Commerce et Technologie	349.3	344.8	245.3	316.8	336.4
Justice	318.8	324.8	372.2	390.4	408.3
Loisir, Chasse et Pêche	235.3	203.5	199.8	210.2	219.4
Main-d'oeuvre, Sécurité du revenu et Formation professionnelle	2 653.9	2 681.4	2 852.4	2 710.1	2 853.8
Office de planification et de développement du Québec	46.8	39.1	44.3	48.4	39.2
Organismes relevant du ministre délégué à l'Administration et à la Fonction publique	715.7	760.6	1 358.0	690.1	446.7
Organismes relevant de la ministre déléguée à la Condition féminine	76.9	86.3	98.1	106.6	123.3
Organismes relevant du ministre responsable de l'application de la Charte de la langue française	21.3	19.7	20.2	22.9	25.3
Personnes désignées par l'Assemblée nationale	62.3	23.6	25.3	27.7	75.1
Régie de l'assurance-maladie du Québec	1 608.3	1 745.6	1 889.5	2 066.7	2 222.1
Revenu	247.8	259.5	281.9	282.2	327.4
Santé et Services sociaux	5 992.1	6 347.9	6 888.2	7 373.8	7 974.8
Sécurité publique	500.6	499.3	576.3	645.8	682.7
Tourisme	78.5	73.9	74.2	79.4	83.7
Transports	1 660.8	1 596.3	1 689.9	1 818.5	1 970.4
Travail	65.4	54.8	82.3	101.3	78.4
Subtotal	27 167.0	28 071.6	30 426.7	31 414.3	32 747.2
Provision for bad debts	88.9	108.3	90.5	128.4	101.1
Provision for losses on investments in share capital¹	70.8	- 1.2	- 13.2	- 134.7	- 97.3
Total budgetary expenditure	27 327.5	28 178.7	30 504.0²	31 408.0²	32 751.0²

¹ Provision made when the accumulated deficit of a government corporation is higher than the cost of investment in share capital held by the government.

² Including \$ 848 800 000, \$ 636 500 000 and \$ 183 000 000 in additional expenditures entered in 1987-1988, 1988-1989 and 1989-1990 respectively, which could have been charged to subsequent years.

GOUVERNEMENT DU QUÉBEC
NON-BUDGETARY TRANSACTIONS
(in millions of dollars)

	1985-1986	1986-1987	1987-1988	1988-1989	Preliminary results 1989-1990
1. Investments, loans and advances					
ENTERPRISES OF THE GOUVERNEMENT DU QUÉBEC					
SHARE CAPITAL AND INVESTED CAPITAL :					
Société de récupération, d'exploitation et de développement forestiers du Québec (REXFOR)	- 18.8	- 27.0	- 2.5	- 17.5	—
Société générale de financement (SGF)	- 49.3	- 20.0	—	—	—
Société québécoise d'exploration minière (SOQUEM)	—	—	—	25.0	—
Société québécoise d'initiatives agro-alimentaires (SOQUIA)	- 4.0	—	—	—	—
Société québécoise d'initiatives pétrolières (SOQUIP)	—	- 10.0	—	—	—
Other	- 22.4	- 7.1	- 1.3	6.0	- 7.5
	- 94.5	- 64.1	- 3.8	13.5	- 7.5
CHANGE IN THE EQUITY VALUE OF INVESTMENTS ¹	- 162.6	- 428.8	- 690.6	- 679.4	- 429.7
LOANS AND ADVANCES :					
Office du crédit agricole du Québec	160.0	—	—	—	—
Sidbec	9.6	—	- 6.8	74.6	—
Société de développement industriel du Québec (SDI)	- 11.0	- 36.3	- 56.1	- 71.7	- 154.9
Société immobilière du Québec (SIQ)	147.0	155.0	75.0	75.0	63.0
Société de récupération, d'exploitation et de développement forestiers du Québec (REXFOR)	2.1	- 0.3	1.5	- 9.8	- 72.0
Other	- 8.9	32.2	15.8	- 84.8	- 3.8
	298.8	150.6	29.4	- 16.7	- 167.7
Total enterprises of the gouvernement du Québec	41.7	- 342.3	- 665.0	- 682.6	- 604.9
MUNICIPALITIES AND MUNICIPAL AGENCIES	1.5	0.3	2.2	3.3	2.5
INDIVIDUALS, CORPORATIONS AND OTHERS	- 2.8	- 37.7	- 17.5	9.8	23.4
Total investments, loans and advances	40.4	- 379.7	- 680.3	- 669.5	- 579.0

GOUVERNEMENT DU QUÉBEC
NON-BUDGETARY TRANSACTIONS (cont.)
(in millions of dollars)

	1985-1986	1986-1987	1987-1988	1988-1989	Preliminary results 1989-1990
2. Retirement plans account					
EMPLOYER AND EMPLOYEE CONTRIBUTIONS					
Contributions by the government as employer					
RREGOP					
☐ Current service	318.1	316.9	298.8	326.7	233.5
☐ Past service	—	—	244.7	111.2	110.1
☐ Interest	438.8	492.1	551.4	659.4	732.6
Other plans					
☐ Current service	164.0	149.5	161.9	166.6	175.4
☐ Past service	360.3	386.7	957.4	311.5	34.6
☐ Interest	267.1	310.1	372.6	489.2	453.4
	1 548.3	1 655.3	2 586.8	2 064.6	1 739.6
Independent agencies					
☐ Current service	5.0	5.1	4.9	4.9	4.6
☐ Past service	17.0	17.0	17.0	17.0	17.0
	22.0	22.1	21.9	21.9	21.6
Employee contributions	148.9	219.1	175.9	187.5	169.2
Total contributions	1 719.2	1 896.5	2 784.6	2 274.0	1 930.4
BENEFITS AND OTHER PAYMENTS					
Benefits and refunds	- 433.2	- 511.8	- 553.1	- 613.9	- 707.3
Other outlays	- 17.0	- 29.9	- 28.5	- 26.1	- 27.1
Total	- 450.2	- 541.7	- 581.6	- 640.0	- 734.4
Total retirement plans account	1 269.0	1 354.8	2 203.0	1 634.0	1 196.0
3. Provision for financing the water purification program¹	4.3	9.8	12.2	14.9	- 4.0
4. Other accounts					
Cash and negotiable securities in hand and outstanding deposits	38.3	- 32.2	- 93.6	79.0	- 70.0
Outstanding cheques	38.1	- 41.7	35.1	45.0	- 4.0
Clearing accounts for collected taxes	38.5	34.0	33.5	10.9	- 22.0
Accounts receivable	- 156.6	- 286.2	- 14.5	- 320.8	235.0
Accrued interest receivable	4.2	0.4	- 0.4	- 2.1	—
Advances from the trust funds	1.9	- 2.4	- 1.6	2.1	—
Accounts payable	240.6	288.1	- 498.4	- 193.4	75.0
Accrued interest payable	89.4	114.3	76.8	54.0	15.0
Deferred expenses	- 4.2	9.4	- 76.7	0.2	- 7.0
Total other accounts	290.2	83.7	- 539.8	- 325.1	222.0
Total non-budgetary transactions	1 603.9	1 068.6	995.1	654.3	835.0

¹ Net amount including the change in the provision for losses on investments in shares.

² The cash inflow under this account is made up of government contributions to the repayment of the long-term borrowings of the Société québécoise d'assainissement des eaux. The cash outflow represents the payments made at the time these borrowings come due.

GOUVERNEMENT DU QUÉBEC
FINANCING TRANSACTIONS
(in millions of dollars)

	1985-1986	1986-1987	1987-1988	1988-1989	Preliminary results 1989-1990
1. Change in cash position	- 18.0	- 80.9	173.2	20.8	33.0
2. Change in direct debt ¹					
New borrowings	2 992.5	4 396.0	3 199.6	3 232.6	2 722.3
Change in the debt resulting from the amortization of the variation in foreign exchange ²	69.0	13.1	13.0	- 45.5	- 56.3
Repayment of borrowings	- 1 303.5	- 2 577.6	- 2 006.7	- 2 249.0	- 1 934.0
Total change in direct debt	1 758.0	1 831.5	1 205.9	938.1	732.0
Total financing	1 740.0	1 750.6	1 379.1	958.9	765.0

1 Excluding the unamortized portion of the variation in foreign exchange which has no effect on the government's financial transactions.

2 Account shown in consideration of the amortization of the variation in foreign exchange charged to expenditure, which affects net financial requirements, without requiring disbursements, as part of the conversion of the debt in foreign currencies using current exchange rates.

BORROWINGS BY THE GOUVERNEMENT DU QUÉBEC IN 1989-1990

Amount in Canadian dollars ¹	Face value in foreign currency	Interest rate ²	Date of issue	Date of maturity	Price to buyer	Yield to buyer ³
(in millions)		%			\$	%
125.0 ⁴	—	10.50	June 1	2014-06-01	98.80	10.638
2.3 ⁵	—	10.50/6.00 *	June 1	1998-06-01	100.00	10.24 ⁶
432.2 ⁷	—	10.50/6.00 *	June 1	1996-06-01	100.00	10.24 ⁶
100.0 ⁴	—	10.00	June 28	2010-06-28	98.96	10.12
50.0	—	10.00	June 28	2010-06-28	98.96	10.12
350.0	—	10.00	June 28	2010-06-28	98.96	10.12
150.0 ^{8,4}	—	10.00	Oct. 26	2000-04-26	98.08	10.303
100.0 ⁴	—	10.00	Nov. 15	2000-04-26	100.25	9.96
50.0	—	10.00	Nov. 15	2000-04-26	100.25	9.96
350.0	—	10.00	Nov. 15	2000-04-26	100.25	9.96
45.2 ⁹	50.0 Aus.	7.27 *	Nov. 8	1999-11-08	100.00	13.33
40.3 ⁹	5 000.0 Yen	5.45 *	Nov. 8	1999-11-08	100.00	5.45
40.8 ⁹	5 000.0 Yen	6.10 *	Nov. 30	1992-11-30	100.00	6.01
594.5	500.0 US	9.125	March 1	2000-03-01	99.854	9.147
179.9 ⁴	—	10.00	March 30	2000-04-26	89.95	11.722
6.1 ¹⁰	—	Misc.	Varied	Varied	100.00	Misc.
95.0 ¹¹	—	Misc.	Varied	Varied	Misc.	Misc.
11.0 ¹²	—	Misc.	Varied	Varied	Misc.	Misc.

2 722.3

* Interest payable annually.

1 Canadian equivalent of face value on the date of borrowing for borrowings in foreign currency.

2 Interest payable semi-annually, except those marked with an asterisk, which are payable annually.

3 Yield to buyer is determined on the basis of interest payable semi-annually.

4 The Caisse de dépôt et placement du Québec subscribed fully or partly for these bond issues.

5 Amount cashed from the June 1, 1988 Québec Savings Bonds issue. The interest rate on these bonds was 8.5 % from June 1, 1988 to October 31, 1988 and 9.5 % from November 1, 1988 to February 28, 1989. It was then set at 10.5 % for the period from March 1, 1989 to May 31, 1990. Minimum interest will be 6 % until May 31, 1998.

6 Rate of return calculated for the period from April 1, 1989 to March 31, 1990.

7 Amount cashed from the June 1, 1989 Québec Savings Bonds issue. The interest rate on these bonds was 10.5 % until May 31, 1990. Minimum interest will be 6 % until May 31, 1996.

8 Borrowing covered by an interest rate exchange contract.

9 Borrowings covered by currency exchange contracts.

10 Borrowings from the Government of Canada under the agreement on the funds collected under the Canada Pension Plan.

11 Increase in outstanding Treasury bills.

12 Interest capitalized on high rate discount borrowings, including \$ 8 459 047 related to borrowings in US dollars.

Note: The gouvernement du Québec has credit agreements with various banks and financial institutions for a total of \$ 1 000 000 000 that can be drawn in Canadian dollars or their equivalent in other currencies.

BORROWINGS BY HYDRO-QUÉBEC IN 1989

Amount in Canadian dollars ¹	Face value in foreign currency	Interest rate ²	Date of issue	Date of maturity	Price to buyer	Yield to buyer ³
(in millions)		%			\$	%
500.0	—	11.00 *	Feb. 9	1999-02-09	101.125	10.53
300.0	—	10.25	Feb. 14	2012-07-16	96.375	10.67
75.0 ⁴	—	10.25	Feb. 14	2012-07-16	96.375	10.67
5.0	—	10.25	Feb. 14	2012-07-16	96.375	10.67
194.8 ⁵	300.0 DM	6.75 *	March 30	1999-03-30	101.00	6.50
230.0	—	10.75	Feb. 1	1999-02-01	98.95	10.92
5.0	—	10.75	Feb. 1	1999-02-01	98.95	10.92
170.0	—	10.25	April 27	2012-07-16	95.05	10.83
50.0 ⁴	—	10.25	April 27	2012-07-16	95.05	10.83
5.0	—	10.25	April 27	2012-07-16	95.05	10.83
15.0	—	10.25	April 27	2012-07-16	95.05	10.83
297.7	250.0 US	8.625	June 15	2029-06-15	100.00	8.625
156.9 ⁵	125.0 ECU	9.25 *	July 6	1999-07-06	102.00	8.75
300.0	—	10.00	Sept. 26	2011-09-26	99.875	10.01
100.0 ⁴	—	10.00	Sept. 26	2011-09-26	99.875	10.01
10.0	—	10.00	Sept. 26	2011-09-26	99.875	10.01
40.0	—	10.00	Sept. 26	2011-09-26	99.875	10.01
100.0	—	10.00	Nov. 22	2019-11-22	100.475	9.95
580.9	500.0 US	8.50	Dec. 1	2029-12-01	99.703	8.526

3 135.3

* Interest payable annually.

1 Canadian equivalent of face value on the date of borrowing for borrowings in foreign currency.

2 Interest payable semi-annually, except those marked with an asterisk, which are payable annually.

3 Yield to the buyer is determined on the basis of interest payable semi-annually.

4 The Caisse de dépôt et placement du Québec subscribed in part or in full for these bond issues.

5 Borrowing under a currency exchange contract and interest rate exchange contract.

Note: As at December 31, 1989, Hydro-Québec had a credit agreement of US\$ 1 150 000 000, of which US\$ 750 000 000 may also be available for its equivalent in Canadian dollars.

APPENDIX D

Review of the Economic Situation in 1989 and Outlook

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Overview

Overall economic growth sagged last year. Québec's economy suffered the consequences of the restrictive macroeconomic policies prevailing in Canada and of the slowdown in activity observed in the United States. In 1989, production rose by 2 %, compared with 5.3 % the previous year. The strength of non-residential investment compensated in part for weaker household demand and the cutback in residential construction. This slowdown was reflected in a more sluggish increase in employment (1 % or 30 000 jobs) than in the previous year. The unemployment rate nevertheless fell slightly, to 9.3 %.

In general, the economic outlook for 1990 differs very little from that anticipated in the 1989-1990 Budget Speech, except that the context is slightly less favourable to economic growth, which will continue to slow down this year. Québec's economy is expected to expand by 1.3 % and some 30 000 jobs should be created. An unemployment rate of 9.9 % is forecast.

This economic situation is the result of a tight monetary policy which is expected to continue until the middle of the year, of the restrictive measures introduced in the last two federal budgets and of more sluggish major export markets. The slow growth in disposable income will curb household spending, while high mortgage rates will do the same to residential construction. A strong currency resulting from the tight monetary policy of the Bank of Canada will prevent Canadian firms from regaining their competitive position. On the other hand, non-residential investment, shored up by various initiatives of the Québec government, will continue to expand steadily and to play a leading role in economic growth.

Following this period of slow growth, the economy should begin to pick up next year. Nevertheless, 1991 should prove to be a transitional period during which the effects of high interest rates and an overvalued Canadian dollar will persist and the new federal tax on goods and services will affect economic activity and inflation in the country.

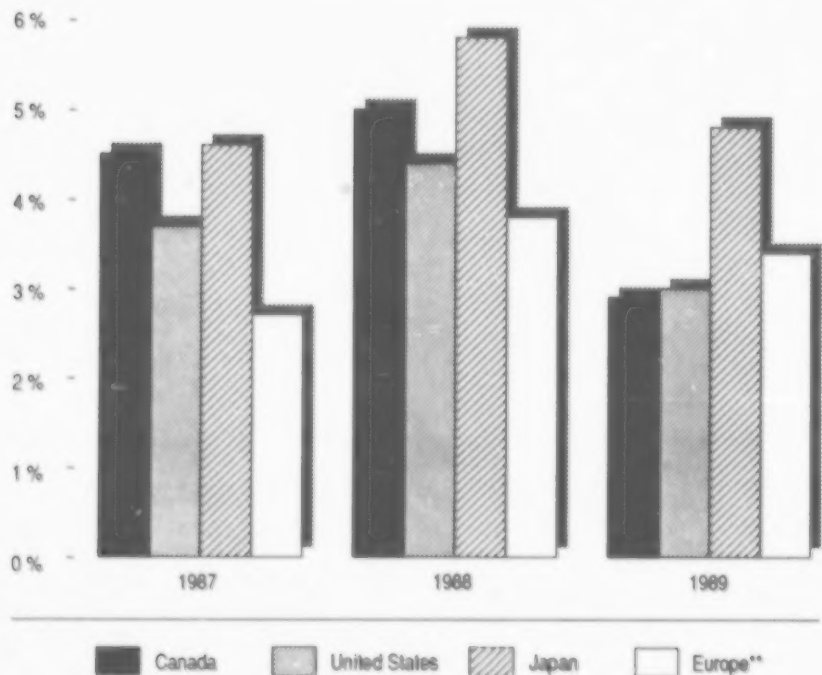
Economic situation in 1989

The external environment

International context characterized by tighter monetary policies in Europe and Japan

The international context remained conducive to economic growth last year, but tensions first felt in 1988 were exacerbated in several countries. After seven years of uninterrupted economic expansion and two years of sustained growth in domestic demand in Europe and Japan, pressures on production capacities increased, contributing to rising inflation and a tighter monetary policy. Interest rates continued to climb, but not enough to reduce inflationary pressures significantly. Production grew by 4.8 % in Japan and 3.4 % in Europe. West Germany registered growth superior to 4 %.

GROSS NATIONAL PRODUCT * OF MAIN OECD COUNTRIES (annual change)



* Gross national product or gross domestic product, in volume.

** Four major European countries : Germany, France, Italy, United Kingdom.

Source : Statistics Canada.

Data Resources Inc.

In the US : slowdown in domestic demand...

Unlike the other major nations, the United States experienced a significant slowdown in domestic demand. Car sales and residential construction sagged under the burden of high interest rates. The rate of capacity utilization reached a ceiling and corporate profits fell, forcing businesses to limit growth in capital expenditures. However, with an increase of over 10 % in exports, the foreign trade sector helped soften the impact of the slowdown so that production nevertheless increased by 3 % in 1989, compared with 4.4 % in 1988.

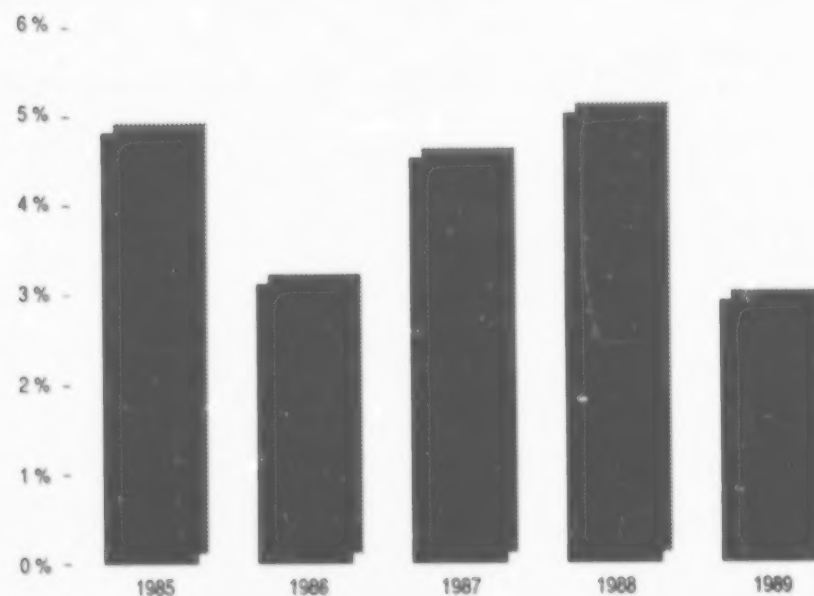
...and slight drop in interest rates

Early in the year, the American Federal Reserve expressed concern over accelerating inflation. However, faced with the reality of an economic slowdown and anxious to avoid a recession in 1990, the monetary authorities adopted a prudent approach in the spring. As the American dollar gained strength in relation to the main overseas currencies, the advances made in foreign trade were in danger of being stalled. The Federal Reserve consequently softened its policy somewhat, and this resulted in a modest drop in short-term interest rates as of the second quarter of 1989.

Canadian economy affected by restrictive macroeconomic policies

The Canadian economy felt the effects of restrictive macroeconomic policies meant to curb growth in order to reduce inflationary pressures. The slowdown in activity was therefore more pronounced than in most other industrialized nations. Production, which had increased by 5 % in 1988, rose by only 2.9 % in 1989.

GROSS DOMESTIC PRODUCT IN CONSTANT DOLLARS — CANADA (annual change)



Source : National Income and Expenditure Accounts, S.C., 13-001.

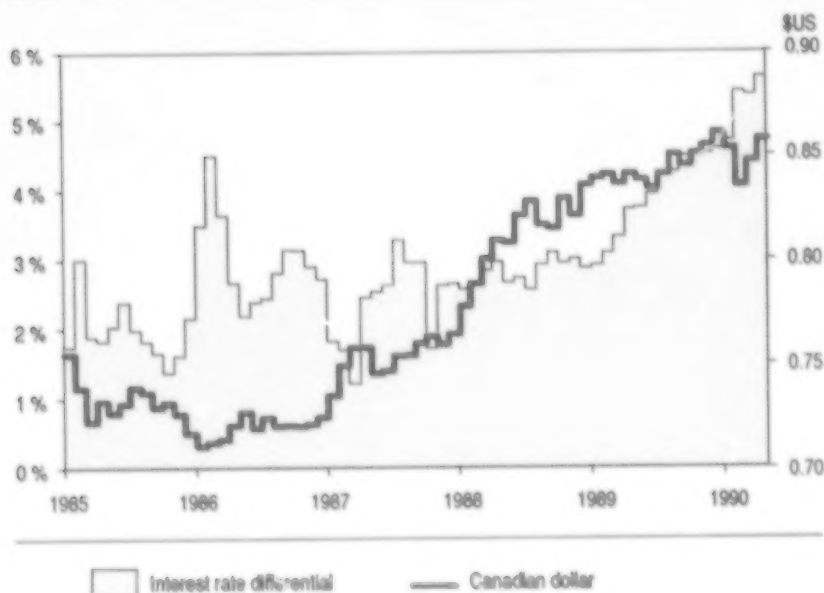
The restrictive measures announced in the federal budget of April 1989 reduced real household income and economic activity while contributing to higher inflation, and the tight monetary policy, intended to limit inflationary pressures, was maintained throughout the year. As a result, short-term interest rates barely moved at all, despite the letup in the United States. The difference between the yield on Canadian short-term securities and that on American short-term securities thus grew noticeably throughout the year, increasing, for all practical purposes, by 50 %. The Canadian dollar continued to climb in response to strong pressures, ending the year at US\$0.8632, compared with a little less than US\$0.84 at the beginning of 1989.

YIELD — GOVERNMENT OF CANADA SECURITIES



Source : Bank of Canada.

DIFFERENTIAL BETWEEN INTEREST RATES ON THREE-MONTH TREASURY BILLS (CANADA — UNITED STATES) AND EXCHANGE RATE OF THE CANADIAN DOLLAR



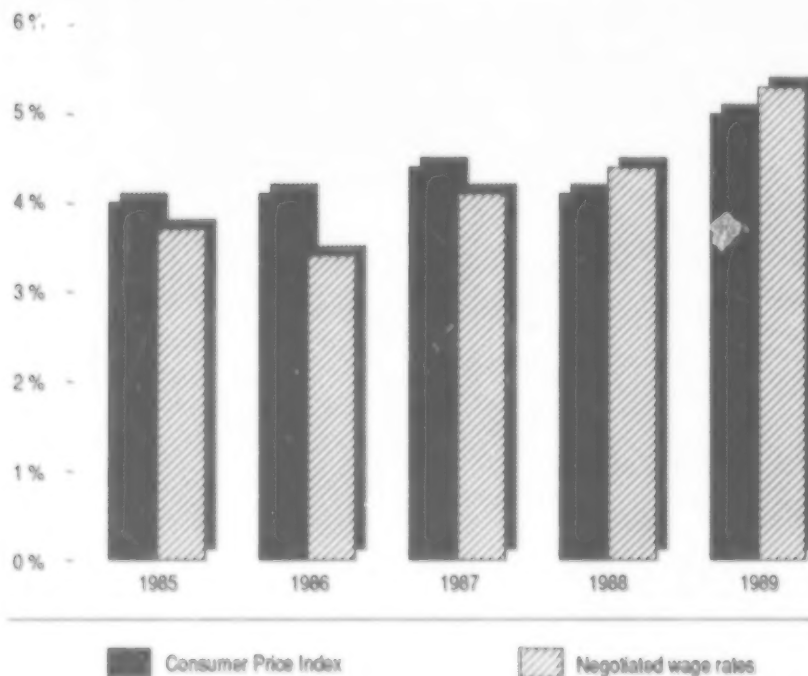
Source: Bank of Canada.

Faced with both weaker growth in demand in the United States and a currency that was seriously undermining their competitive position, several export sectors showed signs of running out of steam. The volume of Canadian exports shrank in 1989, for the first time since 1982. On the other hand, the volume of imports continued to grow rapidly, so that Canada recorded an unprecedented foreign trade deficit. This deterioration in net exports cut growth in Canadian production by some 2.7 % last year, and was the main cause of the economic slowdown.

Inflation exacerbated by temporary factors

With regard to inflation, consumer prices rose by 5 % in 1989, compared with 4.1 % in 1988. A number of factors contributed to this increase: the rise in taxes, the upward movement in the price of food following the drought of the summer of 1988, and an upsurge in the price of oil. As to labour costs, wages negotiated under the major collective agreements grew by an average 5.3 %, which is 0.9 percentage points more than the previous year. Although the rise in wages negotiated has affected more and more regions, the strongest pressures were felt in Ontario and British Columbia, as was the case in 1988.

**CONSUMER PRICES AND WAGE RATES NEGOTIATED
UNDER THE MAJOR COLLECTIVE AGREEMENTS — CANADA
(annual change)**



Sources: The Consumer Price Index, S.C., 62-001.
Major Wage Settlements, Labour Canada.

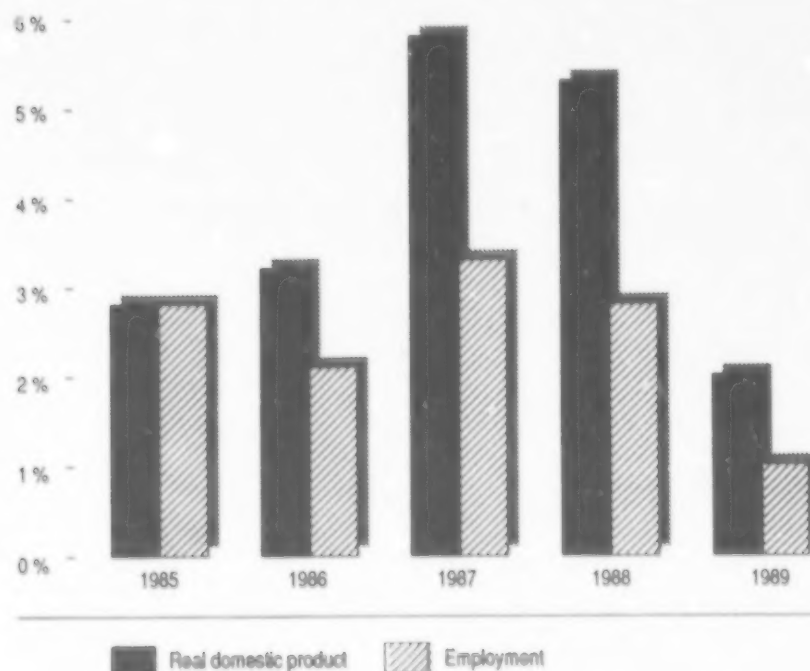
Nation-wide, the labour market felt the effects of weaker growth in economic activity and the situation slowly deteriorated. Employment grew by 2 % compared with 3.2 % in 1988. The unemployment rate nevertheless retrenched slightly, averaging 7.5 % for the year.

Québec's economy grows 2 % in 1989

Québec

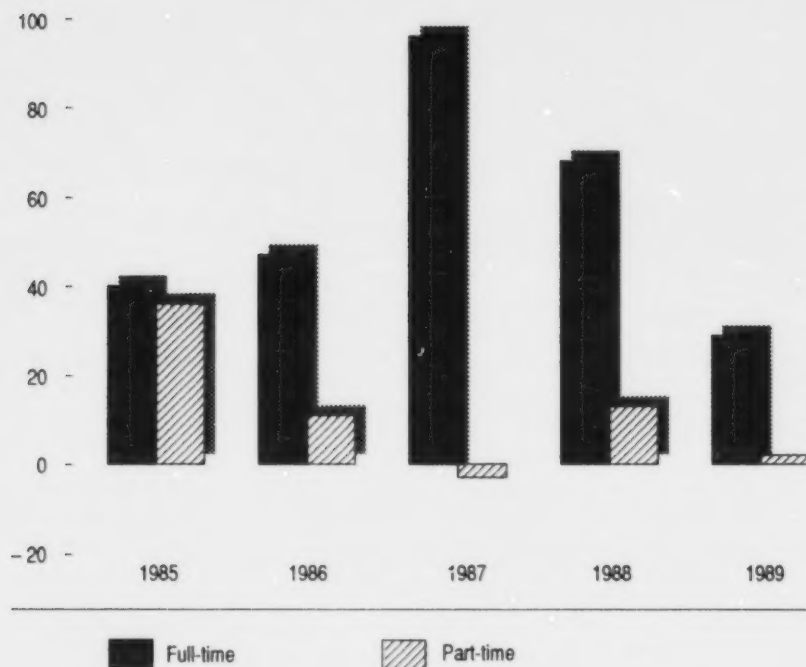
The economic slowdown in North America did not spare Québec. The Canadian monetary policy, adopted to fight inflation, hit particularly hard. Two temporary phenomena accentuated the difference between growth in Québec and growth in Canada as a whole : low water levels affected Hydro-Québec's reservoirs, significantly reducing the amount of electricity generated and exported by Québec, while, in the West, grain farmers had a bumper year after the drought of 1988. Québec therefore registered a growth rate of 2 % in 1989, which restricted job creation to 1 %. The unemployment rate dropped slightly, however, to 9.3 %.

REAL DOMESTIC PRODUCT AND EMPLOYMENT — QUÉBEC (annual change)



Sources : The Conference Board of Canada.
The Labour Force, S.C., 71-001.

CREATION OF FULL-TIME AND PART-TIME JOBS — QUÉBEC (in thousands)



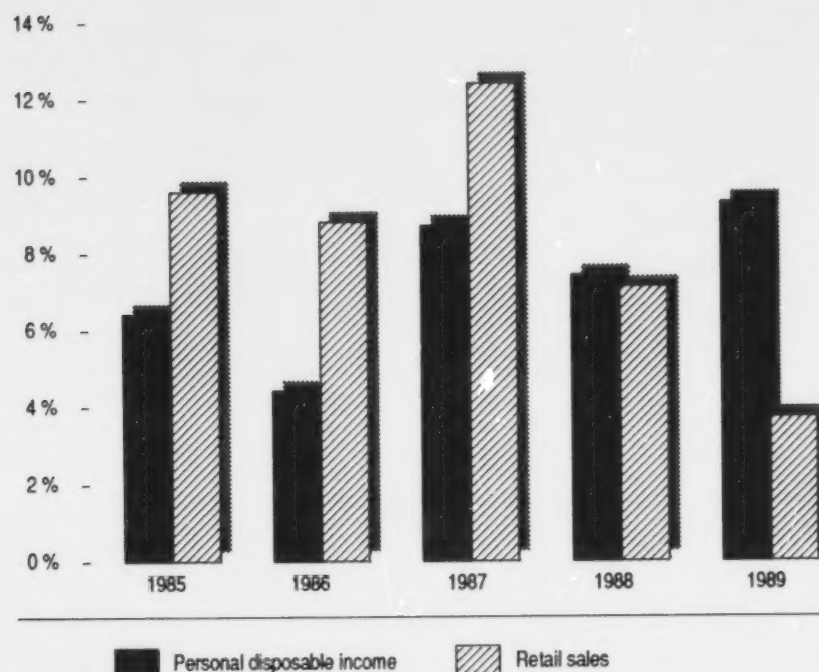
Source : The Labour Force, S.C., 71-001.

Household income and spending

High interest rates make households increasingly cautious

Québec's households benefited last year from the reform of the tax system as applied to individuals, carried out by the Québec government. Disposable income thus rose by 9.3 %. Consumer spending nevertheless increased much less than in 1988, because of the increasing prudence of most households attributable to high interest rates. Retail sales grew by 3.7 % in 1989, while consumer prices rose 4.3 %. Few sectors were untouched by the drop in household demand, but sales of durable goods were the hardest hit. Sales by car dealerships dropped while the fallback in the construction of new housing units continued to exert a negative influence on demand for furniture and appliances.

PERSONAL DISPOSABLE INCOME AND RETAIL SALES — QUÉBEC (annual change)



Sources : Ministère des Finances du Québec.
Provincial Economic Accounts, S.C., 13-213.
Retail Trade, S.C., 63-005.

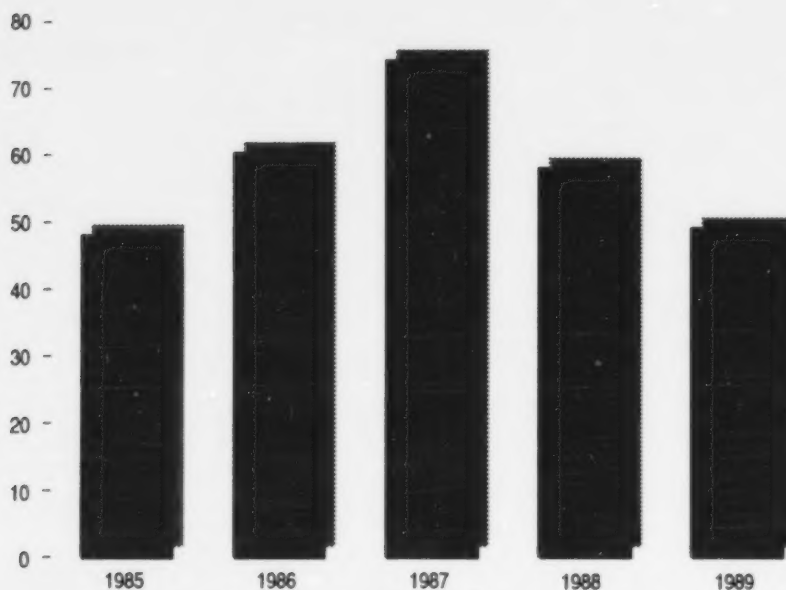
Gross fixed capital investment

Private and public investment rose by 7.7 % in 1989, reaching almost \$ 30 000 000 000 thanks to a 13.6 % increase in non-residential investment.

— Residential construction

Further adjustment in housing market

Activity continued to adjust to long-term housing needs. Housing starts dropped again last year, from 58 062 units in 1988 to 49 058. A large number of new housing units remained on the market and vacancy rates were high in rental buildings. These factors, combined with the interest rates on mortgages, are the source of this additional adjustment in the housing market.

HOUSING STARTS — QUÉBEC
(in thousands of units)

Source : Canada Mortgage and Housing Corporation.

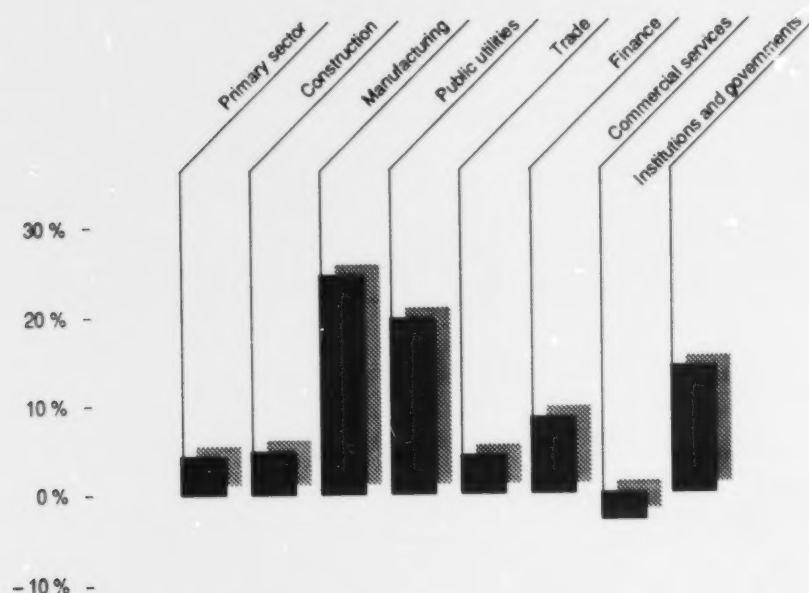
— Non-residential investment

Non-residential investment : driving force behind economic growth in 1989

Private and public non-residential investment provided the main drive behind economic growth in 1989. This is due to rapid growth in private sector investment (12.5 %) and in capital expenditure in the public sector, which rose by 16.2 %, mainly as a result of the development of the province's hydroelectric potential.

The private sector recorded substantial increases in communications (27.4 %) and manufacturing (24.3 %). The manufacturing industries benefited in particular from the steps taken by the Québec government to promote the expansion of the aluminum sector. Hence capital expenditure in the primary metals industry grew by over 71 % in 1989, following an increase of 39.4 % the previous year. Taking advantage of the abundance of forest resources, the pulp and paper industry also contributed to this performance. Modernization plans and added capacity in this sector are reflected in a 42.3 % growth in investment, which exceeded \$ 1 400 000 000 in 1989.

NON-RESIDENTIAL INVESTMENT BY INDUSTRY QUÉBEC — 1989 (annual change)



Source: Private and Public Investment in Canada, S.C., 61-205.

International exports

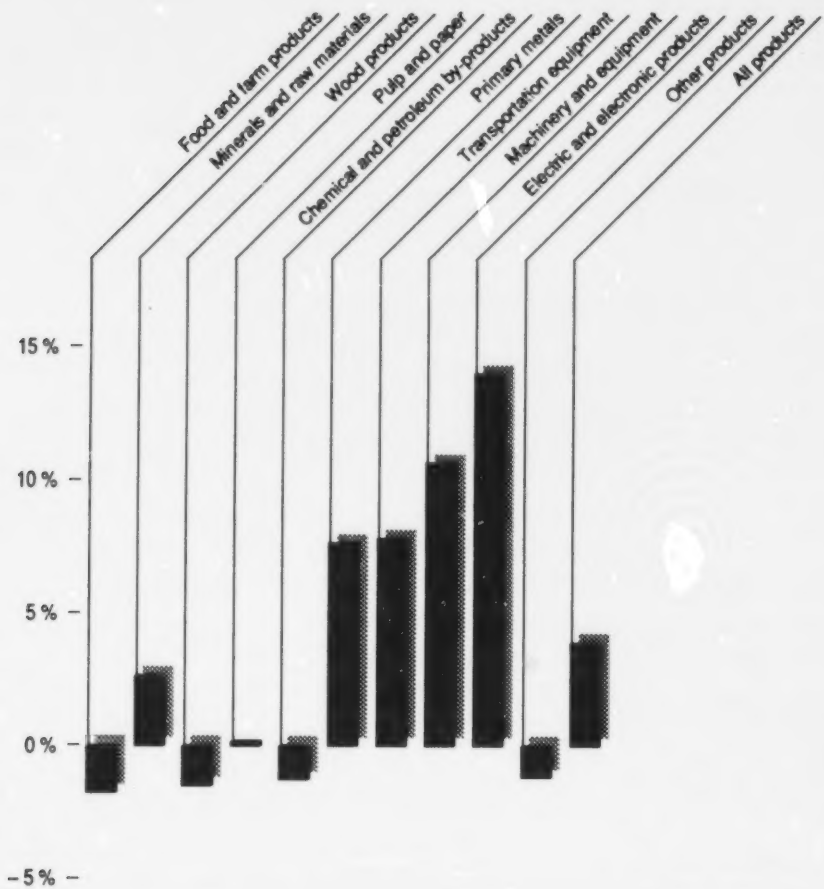
Exports healthier than in rest of Canada

In general, exports in 1989 were healthier in Québec than elsewhere in the country. For the first 11 months of the year, the value of Québec's international shipments rose by 3.9 % while in Canada as a whole the increase was less than 1 %.

Several strong-growth sectors offset the relative weakness of certain traditional export products. Exports of electric and electronic equipment had an excellent year, growing by 13.9 %, while shipments of machinery abroad rose by 10.6 %. Aeronautical products registered a growth rate of 29.3 % thanks to subcontracts with the Airbus consortium, among other things.

However, several traditional export sectors suffered the consequences of the gradual slowdown in activity in the United States, a rising Canadian dollar and a drop in international prices. Exports of paper and related products, for instance, rose by only 0.2 % while shipments of wood products fell by 1.4 %.

INTERNATIONAL EXPORTS LOADED IN QUÉBEC — 1989
(annual change)



Sources : Ministère des Finances du Québec.
Bureau de la statistique du Québec.

Economic outlook for 1990

Overall situation not very conducive to growth in Canada

Owing to the slowdown in the United States, our principal foreign market, and the restrictive monetary, fiscal and budgetary policies of the federal government, the situation in Canada will not be very conducive to growth. Moreover, uncertainty as to future economic activity has increased significantly over the past year and, in particular, since early 1990, when the Bank of Canada decided to increase interest rates to support the Canadian dollar. Nevertheless, the vast majority of analysts do not foresee a recession in Canada over the next twelve months. In general, on account of an upturn in growth in the United States and a gradual tapering off of inflationary pressures and Canadian interest rates, economic activity is expected to gradually regain strength in the second half of the year and in 1991.

Slowdown observed in 1989 to continue in Québec and Canada

An analysis of the major trends in the economy thus suggests that growth will slow down again this year. In Canada and Québec, the growth rate will be limited to 1.3 %, which is not high enough to allow all newcomers on the labour market to find employment.

The external environment

At the international level, the economic outlook differs considerably, depending on the country under consideration : the United States, Japan or Western Europe (except for the United Kingdom). Although growth should be strong overseas, it will be lower than that recorded in 1989. Overall, economic growth will be approximately 3 % in Europe and 4 % in Japan.

Growth of less than 2 % in the United States

In the United States, on the other hand, output will rise by less than 2 %. As a result of the slowdown observed over the past year, additional capacity requirements are lower than in 1988 and 1989. Non-residential investment is therefore expected to slow down, especially in the manufacturing sector, which is feeling the effects of the current situation more strongly. At the same time, inflationary pressures will ease somewhat and consumer prices will increase at a rate of less than 4.5 % in 1990.

Canadian interest rates will remain high

In Canada, no significant reduction in interest rates is expected over the next few months. Consequently, the slowdown initiated in 1989 will continue this year. While, last year, Canadian macroeconomic policies affected net exports primarily, in 1990, the main categories of domestic demand will feel the effects of persistently high interest rates and the fiscal and budgetary measures stemming from recent federal budgets. Although the falloff in domestic demand will curb the growth of imports, foreign trade will continue to have a negative impact on economic growth, mainly on account of the high value of the Canadian dollar.

Québec

Anticipated growth of 1.3 % in Canada and Québec

This year, the growth rate of production in Québec should be the same as in the country as a whole, i.e. 1.3 %. Stronger non-residential investment is expected to compensate for somewhat less vigorous spending on consumption and housing.

Still faced with a difficult economic situation and, in particular, high real interest rates, households will remain cautious. In the short term, this situation will make it impossible to anticipate a rapid upturn in consumer spending. The demand for durable and semi-durable goods is expected to be fairly limited and the value of retail sales will increase by only 3.8 %. As in 1989, automobile dealers and furniture and appliance merchants will record the lowest increase in sales.

The residential sector, which is very sensitive to current economic conditions and, in particular, to high interest rates, will continue to be affected by high vacancy rates in most regions. The residential construction market will therefore be subjected to continued adjustment over the coming year. Housing starts will amount to around 44 000 units in 1990, a level that remains compatible with the needs of Québec households.

Non-residential investment to remain very vigorous on account of Québec government initiatives

Non-residential investment will remain strong despite the fact that the economic situation is generally less favourable than last year. At this stage in the economic cycle, this important demand component will sustain activity with a 12.9 % increase, resulting in an investment rate of approximately 20 % of gross domestic product. The vitality of this sector is largely dependent on Québec government initiatives. Efforts to promote the unparalleled advantages of Québec's enormous hydroelectric potential have borne fruit. On the one hand, investment in the primary processing of metals will increase by 72.2 % and total over \$ 2 000 000 000, primarily on account of several major projects in the aluminum industry, such as those of Alumax, SGF-Alouette and Reynolds in Baie-Comeau. On the other hand, greater demand for electricity and improvements in the transportation and distribution network will lead to a \$ 1 015 000 000 increase in investment by Hydro-Québec over 1989, for a total of \$ 3 480 000 000. The recovery plan for public sector investment will entail additional expenditures of \$ 279 000 000, mostly in 1990-1991, in the areas of health and social services, education and cultural affairs.

Despite the vitality of non-residential investment, the economic situation will not be very favourable to rapid growth in employment, as the current monetary policy will have a particularly strong impact on such important sectors as manufacturing, construction and trade. Employment will increase at approximately the same rate as last year, with the creation of 30 000 jobs. Taking into account the growth of the labour force, the unemployment rate will average 9.9 % in 1990.

SUMMARY OF SHORT-TERM ECONOMIC OUTLOOK — QUÉBEC

	1989 %	1990 %
OUTPUT		
☐ Gross domestic product	6.3	5.7
☐ Real domestic product	2.0	1.3
COMPONENTS OF DEMAND		
☐ Non-residential investment	13.6	12.9
☐ Housing starts ¹	49.1	43.7
☐ Retail sales	3.7	3.8
COMPONENTS OF INCOME		
☐ Wages and salaries	7.6	6.6
☐ Personal income	7.8	7.8
☐ Corporate profits	-4.6	-11.5
LABOUR MARKET		
☐ Labour force	1.0	1.6
☐ Employment	1.0	1.0
☐ Unemployment rate ²	9.3	9.9

1 Thousands.

2 Level in percentage.

Medium-term economic outlook for 1991-1993

The medium-term economic outlook is dependent on a series of assumptions concerning internal influences and the international environment in which the Québec economy will develop over the next few years. The realization of the projections for this period is contingent on the confirmation of these assumptions, which have been chosen from a wide range of possibilities. Such projections must therefore not be interpreted as forecasts but rather as an instrument for analysis which gives a coherent picture of the main economic trends.

Main assumptions underlying the projection

In general, the economic environment in North America will be less conducive to growth between 1991 and 1993 than it has been over the past four years :

- ☐ real interest rates will remain relatively high ;
- ☐ the need to control the increase in the public debt will help to keep fiscal and budgetary policies restrictive in Canada and the United States ;
- ☐ the Canadian dollar will continue to exceed US\$0.80 for the period up to 1993 ;
- ☐ the new federal goods and services tax (GST) will come into effect in January 1991 at a rate of 7 % as announced ;
- ☐ economic growth will average around 2.5 % in the United States and less than 3 % in Canada between 1991 and 1993.

Outlook for the Québec economy for 1991 to 1993

On the basis of these assumptions, it is estimated that the average growth rate of the Québec economy will be 2.8 % between 1991 and 1993. This expansion will rest primarily on the vitality of non-residential investment and increased exports.

Household demand will grow less rapidly than in the 1980s. It is unlikely that there will be a significant drop in the rate of savings, which can hardly be further reduced at this point. Consumer spending will therefore increase at the same rate as disposable income. With regard to housing, residential construction will rise to a level that is compatible with the rate of formation of households and the needs of Quebecers. Consequently, housing starts will average 44 000 units per year.

Québec businesses will have to continue to modernize in order to become more competitive if they are to successfully cope with growing international competition in the wake of the globalization of markets and the Canada-US Free Trade Agreement. In addition, several large-scale investment projects will continue to sustain activity while increasing the economy's production potential and ability to penetrate foreign markets. Finally, Hydro-Québec's major investment program will constitute an important economic lever by injecting an average of more than \$ 5 000 000 000 annually into the Québec economy between 1991 and 1993. Business investment will therefore continue to be one of the driving forces of the economy over the next few years.

Average growth of 2.8 %...

...owing to business investment...

...and exports

Another important factor in economic growth in Québec is the increase in international exports, which will enjoy sustained growth between 1991 and 1993, reflecting the more rapid expansion of foreign markets, the removal of trade barriers through negotiations under the Free Trade Agreement and the coming into operation of new manufacturing plants as a result of substantial investment in this sector of activity.

SUMMARY OF MEDIUM-TERM ECONOMIC OUTLOOK — QUÉBEC

	1979-1988 %	1991-1993 %
PRODUCTION		
☐ Gross domestic product	9.5	6.9
☐ Real domestic product	2.7	2.8
COMPONENTS OF DEMAND		
☐ Non-residential investment	7.9	7.4
☐ Housing starts ¹	44.7	44.2
☐ Retail sales	9.3	6.3
COMPONENTS OF INCOME		
☐ Wages and salaries	8.6	6.7
☐ Personal income	9.6	6.4
☐ Corporate profits	12.9	9.8
LABOUR MARKET		
☐ Labour force	1.6	1.6
☐ Employment	1.8	1.9
☐ Unemployment rate ²	11.3	9.7

¹ Thousands.

² Average level in percentage.

ECONOMIC INDICATORS QUÉBEC

	Unit of measurement	1985	1986	1987	1988	1989 ¹	85-84 %	86-85 %	87-86 %	88-87 %	89-88 %	89-85 ² %
Gross domestic product	\$ 000 000	107 944	117 219	131 014	144 031	153 099	6.9	8.6	11.8	9.9	6.3	9.1
Real domestic product	\$ 000 000 ³	76 308	78 741	83 280	87 711	89 455	2.8	3.2	5.8	5.3	2.0	4.1
Per capita real domestic product	\$ ³	11 714	12 040	12 632	13 214	13 373	2.4	2.8	4.9	4.6	1.2	3.4
Personal income	\$ 000 000	97 598	103 540	113 069	122 876	132 495	7.0	6.1	9.2	8.7	7.8	7.9
Per capita personal income	\$	14 982	15 832	17 150	18 511	19 808	6.7	5.7	8.3	7.9	7.0	7.2
Total capital expenditures	\$ 000 000	19 240	21 030	24 941	27 454	29 556	22.2	9.3	18.6	10.1	7.7	11.3
- manufacturing sector	\$ 000 000	3 395	3 714	3 997	4 566	5 675	23.4	9.4	7.6	14.2	24.3	13.7
Manufacturers' shipments	\$ 000 000	60 798	61 056	66 473	71 894	73 993	6.5	0.4	8.9	8.2	2.9	5.0
Retail sales	\$ 000 000	31 782	34 593	38 866	41 615	43 155 ⁴	9.6	8.8	12.4	7.1	3.7	7.9
Consumer Price Index	1981 = 100	127.8	133.9	139.8	145.0	151.2	4.3	4.8	4.4	3.7	4.3	4.3
Population (June 1)	'000	6 514	6 540	6 593	6 638	6 689	0.3	0.4	0.8	0.7	0.8	0.7
Labour force	'000	3 140	3 174	3 253	3 311	3 343	1.7	1.1	2.5	1.8	1.0	1.6
Employment	'000	2 768	2 825	2 918	3 001	3 031	2.8	2.1	3.3	2.8	1.0	2.3
Unemployment rate	%	11.8	11.0	10.3	9.4	9.3	—	—	—	—	—	—

1 Preliminary data for 1989.

2 1985-1989 annual compound rate.

3 1981 constant dollars.

4 Since 1989, Statistics Canada has been using a new survey of the retail trade, different from that used until 1988. The 1989 figure was obtained by applying the growth rate revealed by the new survey to the 1988 results.

Sources: Provincial Economic Accounts, S.C., 13-213, The Conference Board of Canada, Private and Public Investment in Canada, S.C., 61-205, Monthly Survey of Manufacturing, S.C., 31-001, Retail Trade, S.C., 63-005, The Consumer Price Index, S.C., 62-001, Postcensal Annual Estimates of Population, S.C., 91-210, The Labour Force, S.C., 71-001.

ECONOMIC INDICATORS CANADA

	Unit of measurement	1985	1986	1987	1988	1989 ¹	85-84 %	86-85 %	87-86 %	88-87 %	89-88 %	89-85 ² %
Gross domestic product	\$ 000 000	477 988	504 631	550 334	601 508	648 537	7.5	5.6	9.1	9.3	7.8	7.9
Real domestic product	\$ 000 000 ³	352 821	364 266	381 795	400 143	411 721	4.7	3.2	4.8	4.8	2.9	3.9
Per capita real domestic product	\$ ³	14 020	14 368	14 904	15 442	15 703	3.9	2.5	3.7	3.6	1.7	2.9
Personal income	\$ 000 000	400 199	426 398	464 581	505 726	552 073	7.5	6.5	9.0	8.9	9.2	8.4
Per capita personal income	\$	15 903	16 818	18 135	19 517	21 057	6.7	5.8	7.8	7.6	7.9	7.3
Total capital expenditures	\$ 000 000	90 504	97 086	109 162	122 935	134 347	20.1	7.3	12.4	12.6	9.3	10.4
- manufacturing sector	\$ 000 000	11 516	14 249	15 332	17 662	20 302	29.6	23.7	7.6	15.2	14.9	15.2
Manufacturers' shipments	\$ 000 000	248 673	253 343	268 536	288 549	297 010	8.2	1.9	6.0	7.5	2.9	4.5
Retail sales	\$ 000 000	129 446	140 009	153 733	165 190	175 432 ⁴	11.5	8.2	9.8	7.5	6.2	7.9
Consumer Price Index	1981 = 100	127.2	132.4	138.2	143.8	151.0	4.0	4.1	4.4	4.1	5.0	4.4
Population (June 1)	'000	25 165	25 353	25 617	25 912	26 219	0.7	0.7	1.0	1.1	1.2	1.0
Labour force	'000	12 532	12 746	13 011	13 275	13 503	1.8	1.7	2.1	2.0	1.7	1.9
Employment	'000	11 221	11 531	11 861	12 245	12 486	2.6	2.8	2.9	3.2	2.0	2.7
Unemployment rate	%	10.5	9.5	8.8	7.8	7.5	—	—	—	—	—	—

1 Preliminary data for 1989.

2 1985-1989 annual compound rate.

3 1981 constant dollars.

4 Since 1989, Statistics Canada has been using a new survey of the retail trade, different from that used until 1988. The 1989 figure was obtained by applying the growth rate revealed by the new survey to the 1988 results.

Sources: National Income and Expenditure Accounts, S.C., 13-001, Gross Domestic Product by Industry, S.C., 15-001, Private and Public Investment in Canada, S.C., 61-205, Monthly Survey of Manufacturing, S.C., 31-001, Retail Trade, S.C., 63-005, The Consumer Price Index, S.C., 62-001, Postcensal Annual Estimates of Population, S.C., 91-210, The Labour Force, S.C., 71-001.

APPENDIX E

Québec's public finances : meeting the challenge of the 1990s

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Introduction

In *The Need for Immediate Action* (March 1986), a document summarizing the state of public finances, the Québec government defined the objectives it intended to submit to the population and proposed new priorities aimed at sounder finances and a more competitive tax system.

Improvement of Québec's financial position

Changes in the various economic and financial indicators show that Québec's economy has performed well indeed and that the government's financial position has improved significantly since 1985-1986 (see Addendum I). There has been :

- ☐ real economic growth of 4.1 % on average over the past four years ;
- ☐ a substantial reduction of the deficit and net financial requirements ;
- ☐ a stabilization of the debt/GDP ratio ;
- ☐ a levelling-off of the share of budgetary revenue slated for debt service ; and
- ☐ a gradual return towards a balanced current account.

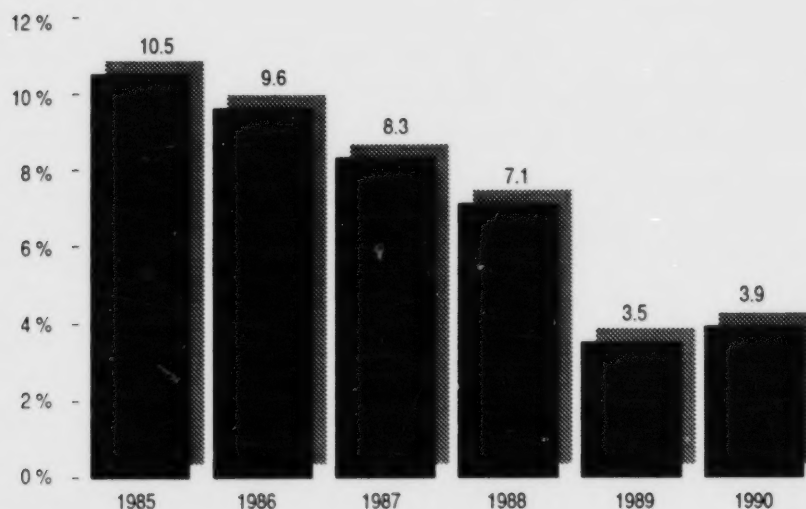
EVOLUTION OF THE QUÉBEC GOVERNMENT'S FINANCIAL POSITION

	1970-1971	1975-1976	1980-1981	1985-1986	1989-1990
Deficit (in \$M)	- 135	- 928	- 3 450	- 3 344	- 1 600
Net financial requirements (in \$M)	- 190	- 406	- 2 321	- 1 740	- 765
Debt/GDP (in %)	11.0	12.5	20.3	29.3	27.5
Interest costs on total debt/budgetary revenue (in %)	4.7	4.8	9.5	14.0	13.1
Current account balance (in \$M)	+ 303	+ 53	- 2 530	- 2 075	- 270

A more competitive tax system

Successive measures adopted by the government have made Québec's tax system more competitive. The differential in the tax burden with Ontario dropped from 10.5 % in 1985 to 3.5 % in 1989 and will be 3.9 % in 1990 (see Addendum II).

TAX BURDEN OF THE PRIVATE SECTOR
Québec — Ontario differential
(in percentage)



Note : After the tax measures of the 1990-1991 Québec Budget Speech but before the tax measures of the 1990-1991 Ontario Budget Speech.

The tax system is more equitable with regard to families and increasingly targets economic growth and job creation :

- ☐ the reduction in maximum marginal income tax rates has bolstered Québec's ability to retain high-income earners and fostered a higher investment rate ;

MAXIMUM MARGINAL FEDERAL-PROVINCIAL TAX RATE
PERSONAL INCOME TAX
(in percentage)

	1985	1990
Québec	62.1	50.5
Ontario	52.0	48.2
Differential	10.1	2.3

- ☐ the incentive for low-income earners to work has been reinforced by increasingly integrating the tax system and transfer programs for individuals ;
- ☐ financial support for families has been increased and zero tax thresholds have been raised ; and

- ☐ the Québec tax system is one of the most favourable for investment and research and development.

Need to preserve improvements

Substantial progress has been made in the field of public finances and improvements must now be preserved. Maintaining a sound financial position and a competitive tax system are of paramount importance since these elements are essential to attract investment, guarantee Québec's future economic growth and give the government sufficient financial leeway to enable it to adequately meet the priority needs of Quebecers.

The challenge confronting us is all the more formidable since a more difficult economic and budgetary context lies ahead :

- ☐ restrained economic growth given, in particular, Canada's restrictive macroeconomic policy, which will be reflected in slower growth in own-source revenue ;
- ☐ stagnation in federal transfers ; and
- ☐ increased pressure on spending in health and social services, the environment and the maintenance and renovation of public sector infrastructures, for instance. These pressures will be intensified by major demographic changes including an aging population.

The government will be faced with restrained growth in its budgetary revenue coupled with additional pressure on spending. It is important now to define the priorities for the coming years.

In this context, we must assess the problems still affecting public finances. This will be the topic of section 1.

Section 2 will present the context of the 1990s and the constraints standing in the way of the preservation of improvements in terms of public finances.

Objectives and means of attaining them will be discussed in sections 3 and 4.

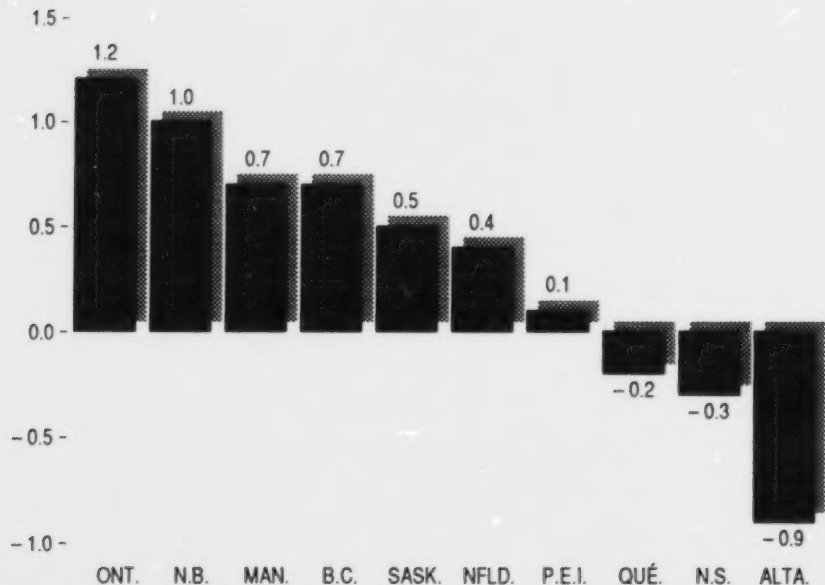
1. The situation

1.1 The financial position

Québec's financial position today is sounder than it was in 1985-1986. However, the government's financial margin of manoeuvre is burdened by a \$ 16.4 billion deficit accumulated in the current account since 1977-1978, with \$ 12.8 billion run up from 1977-1978 to 1985-1986.

Québec is one of the only three provinces (along with Alberta and Nova Scotia) to have posted a current account deficit in 1989-1990. The other provinces now post surpluses in this area.

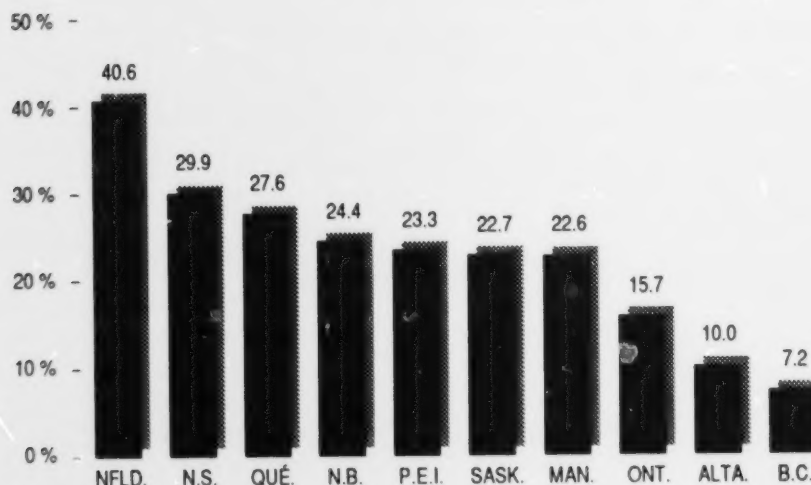
CURRENT ACCOUNT BALANCE, ¹ 1989-1990 (as a percentage of GDP)



¹ The current account balance represents the difference between the budgetary deficit and capital expenditures. A negative balance indicates that part of current expenditures were financed by borrowings.

The Québec government's indebtedness continues to be high. The debt/GDP ratio was 27.6 % as at March 31, 1989, the third highest level among Canadian provinces.

DEBT OF PROVINCES AS AT MARCH 31, 1989¹
(as a percentage of GDP)



¹ Direct debt of provinces. For Québec and Ontario, the balance of the retirement plans account for public and parapublic employees is added to the direct debt. Only these two provinces record that item under liabilities.

Balancing the current account and reducing the burden of debt service

Sound financial management for Québec is based on balancing the current account and freeing up surpluses when the economy regains its potential growth rate in order to offset the deficits accumulated in the past. The resulting reduction in the burden of debt service will enable the government to deal more effectively with the population's growing needs, increase its financial flexibility and play a more important role in stabilizing the economic situation.

1.2 The tax system

Distribution of the private sector's tax burden differential

Decrease in tax burden differential since 1986

Successive measures introduced by the government have made Québec's tax system much more competitive than it was a few years ago. Since 1986, we have seen a decrease in the tax burden differential with Ontario for overall income taxes, and taxes and duties levied by provincial and local governments. Analysis of this differential by source, however, reveals considerable differences between the Québec and Ontario tax systems.

TAX BURDEN OF THE PRIVATE SECTOR
Québec — Ontario differential
1990 taxation year

	\$M	%
Provincial taxes		
• Personal income tax	2 529	
• Health insurance premiums ¹	- 222	
• Corporate taxes ²	- 20	
• Consumption taxes ³	- 43	
• Fees ⁴	70	
Subtotal	2 315	12.2
Local taxes		
• Municipal taxes	1 362	
• School taxes	- 2 648	
Subtotal	- 1 286	- 17.4
Total	1 030	3.9

Notes : — After the tax measures of the 1990-1991 Québec Budget Speech but before the tax measures of the 1990-1991 Ontario Budget Speech.

— Individual entries are rounded off and may not correspond to totals.

- 1 Ontario health insurance premiums were payable three months in advance ; therefore, 1990 includes a residual equal to one-quarter of annual premiums, although the plan has been financed by a tax on the total payroll, imposed on employers since January 1, 1990.
- 2 Including corporate income tax, the tax on capital and employer contributions to the financing of health services.
- 3 Including the retail sales tax, fuel and tobacco taxes, meals and hotels taxes, duties on alcoholic beverages and the specific taxes on advertising and telecommunications.
- 4 Including fee revenue and duties on natural resources.

Provincial taxes higher, local taxes lower in Québec

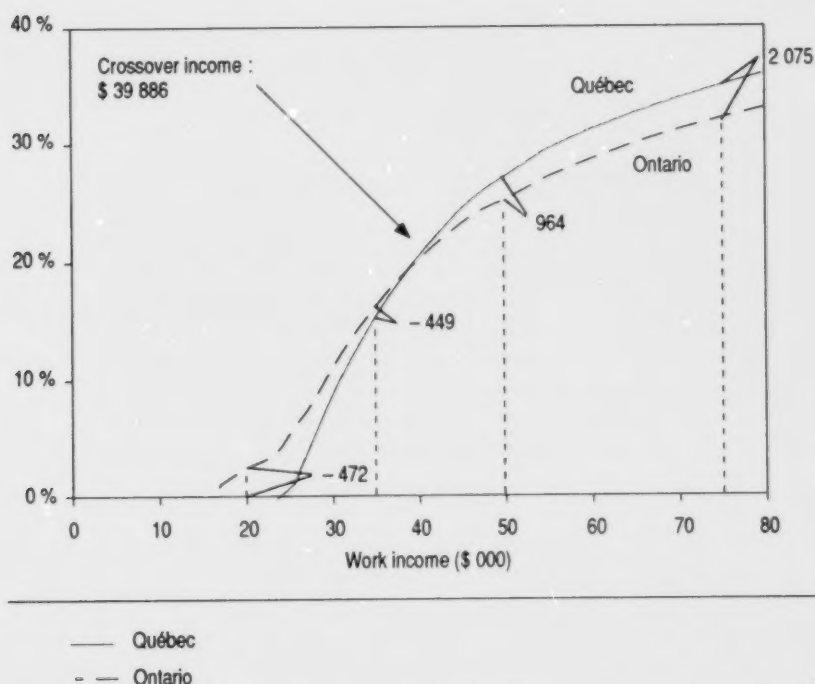
Provincial taxes are 12.2 % higher in Québec than in Ontario, representing a differential of \$ 2 315 million in 1990. Local taxes, on the other hand, are 17.4 % lower in Québec. Québec taxpayers actually enjoy a local tax burden \$ 1 286 million lower than that of their Ontario counterparts. This stems from the fact that school board financing is much more centralized in Québec than in Ontario.

Moreover, the greater part of the tax burden differential at the provincial level is attributable to personal income tax. Despite changes that have resulted in substantial income tax reductions since 1986, Quebecers continue to bear an income tax burden of \$ 2 529 million over that of Ontario taxpayers.

A tax system that is more progressive and equitable for families

Québec has, however, made considerable efforts where the taxation of families is concerned. Annual financial assistance to families has increased by close to \$ 1 billion since 1985. For example, a couple with two children earning less than \$ 39 886 pays less income tax in Québec than it would in Ontario.

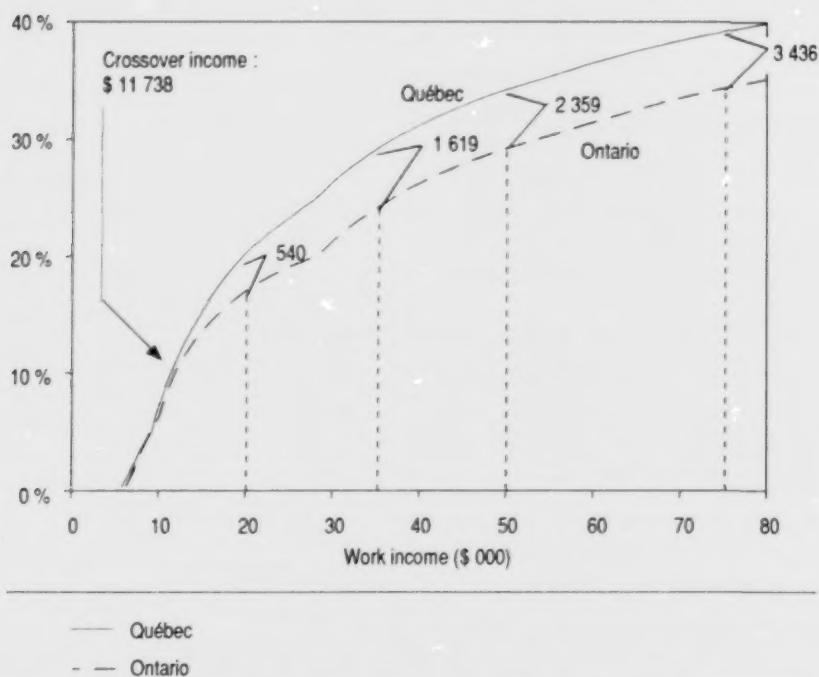
AVERAGE TAX RATE¹ IN 1990
Comparison between Québec and Ontario
Couple with two children, 6-11
(as a percentage of work income)



¹ Taxes : Federal and provincial income taxes, less allowances and tax credits, plus contributions to health programs (OHIP).

Single persons also pay less income tax in Québec than in Ontario if their earnings are below \$ 11 738. Therefore, childless taxpayers in the middle and high income brackets bear the lion's share of the income tax differential where personal income tax is concerned.

AVERAGE TAX RATE¹ IN 1990
Comparison between Québec and Ontario
Single person
(as a percentage of work income)



¹ Taxes : Federal and provincial income taxes, less allowances and tax credits, plus contributions to health programs (OHIP).

Competitive corporate tax system

The government has maintained a specific feature of the Québec tax system as it pertains to businesses : it taxes profits less by having businesses contribute more on their total payroll and paid-up capital. Combined with this are fiscal measures promoting investment and research and development.

A joint ministère des Finances-Price Waterhouse study on the Québec, Ontario, Massachusetts, Michigan and New York tax systems showed that Québec's is competitive since its effects are clearly favourable to profitable, dynamic firms and to those that invest in increasing their production capacity and improving their technology.

To summarize :

In a context of trade globalization, improvements in Quebecers' standard of living must go hand in hand with a more competitive Québec economy both internationally and on domestic markets.

Alleviating the burden of taxes decisive to Québec's competitiveness, including personal income tax

Québec's tax system is decisive in increasing our competitive edge. Therefore, it is essential that Québec preserve a competitive corporate tax system. Lower personal income taxes would reduce direct production costs in Québec, provide greater incentive to work and promote a higher investment rate. To this end, we must continue to rework the tax system to progressively alleviate the burden of those taxes that are most decisive in ensuring Québec's competitiveness and increase the relative share of consumption taxes and fees.

1.3 The local sector

The 1980 tax reform significantly modified the financing of Québec's local authorities. To enhance municipal powers, the government increased its subsidies to school boards to give municipalities the lion's share of the property tax field. At the same time, however, it stopped redistributing a portion of the retail sales tax and the tax on meals and hotel services and ended its program of per capita subsidies to municipalities with over 5 000 inhabitants. The reform resulted in a net resource transfer of \$ 200 million to the municipal sector.¹

As might have been expected, the reform enabled local authorities as a whole to considerably increase their financial autonomy. Since 1981, own-source revenue has represented close to 90 % of local authorities' total revenues, compared with slightly over 70 % in 1978.

However, government subsidies to local authorities have grown annually by 10.7 % since 1980-1981, today representing close to \$ 1 billion. Of this total, more than \$ 400 million are slated for public transportation and \$ 300 million for the water purification program. This has intensified pressure on the provincial tax burden and reduced pressure at the local level.

A number of problems have arisen since 1980 and issues have been raised by the municipal sector, especially as regards compensation paid in lieu of taxes by the government, the municipal equalization payment system, taxation of industrial buildings and the business tax.

Reassessing responsibility-sharing

These issues, among others, should be the topics of discussion between the government and the municipalities in the near future. We will also have to reassess responsibility-sharing by provincial and local governments. The tasks must be assigned to the appropriate government level in order to ensure the most effective management possible. The decision to spend must be more closely linked to the decision to finance expenditures.

¹ See the report of the Comité Québec-municipalités, *Bilan et suivi de la nouvelle fiscalité*, October 1982, pp. 7-24.

2. The 1990s

The financial situation has been improved and fiscal competitiveness has been restored since 1985, in part through vigorous economic activity. During that time, the average annual rate of real growth was 4.1 %, while the unemployment rate dropped from 11.8 % to 9.3 %. The government therefore enjoyed a marked increase in revenue, which contributed to an improved financial position.

2.1 More moderate economic growth

In the middle and long term, however, the Québec government cannot base its budget choices on continued strong growth in its financial resources. Because of the financial position of the Government of Canada, the decade is commencing with highly restrictive federal fiscal and budgetary policies that will curb economic growth. The monetary policy is also very restrictive, adding to the factors that are putting a damper on economic growth.

On the other hand, analysts generally agree that Québec's economic potential, like that of Canada, will be affected by a more sluggish increase in manpower, mainly because of two structural phenomena :

- ☐ the drop in the birth rate, which began in earnest in the 1960s, and which will cause manpower to grow more slowly ; and
- ☐ increasing convergence in the participation rate of men and women in the labour force, which will put a brake on the impact on the labour supply of the massive arrival of women on the labour market.

Less rapidly increasing own-source revenue

This slower economic growth will have a ripple effect on the evolution of the government's own-source revenue. When the tax structure remains constant, own-source revenue grows at about the same rate as the GDP. As economic growth returns towards its medium-term potential, own-source revenue will increase less rapidly.

Since Québec must remain competitive in a context characterized by the liberalization of international trade, it would not be advisable to try to compensate for the slower growth in own-source revenue through tax increases. On the contrary, the government will be obliged to increase its support for the private sector by directing its policies towards greater economic productivity and competitiveness through continuing adjustments to the taxation system. In the 1990s, this will be the best way to guarantee that the potential for economic growth remains high.

2.2 Federal transfer programs

An analysis of the dynamics of federal transfers¹ shows that they have been stagnating in Québec while growing more rapidly in the affluent provinces. Moreover, certain programs set standards that do not necessarily promote efficiency in the public sector.

Levelling-off of federal transfers

Since 1983-1984, the Québec government has been faced with a major financial constraint : cash transfers from the federal government have levelled off.

EVOLUTION OF REVENUE FROM FEDERAL TRANSFERS¹ (in millions of dollars)

	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93
Transfers on an accrual basis	5 925	6 065	6 044	6 063	6 326	6 571	6 627	6 573	6 545	6 678
% change	12.8	2.4	-0.3	0.3	4.3	3.9	0.9	-0.8	-0.4	2.0
Adjustments ²	325	196	177	-191	-150	-120	100	173	149	37
Transfers on a cash basis	6 250	6 261	6 221	5 872	6 176	6 451	6 727	6 746	6 694	6 715
% change	20.3	0.2	-0.6	-5.6	5.2	4.4	4.3	0.3	-0.8	0.3
As a percentage of budgetary revenue	28.9	28.4	25.9	23.2	22.0	21.6	21.6	20.1	18.6	17.7

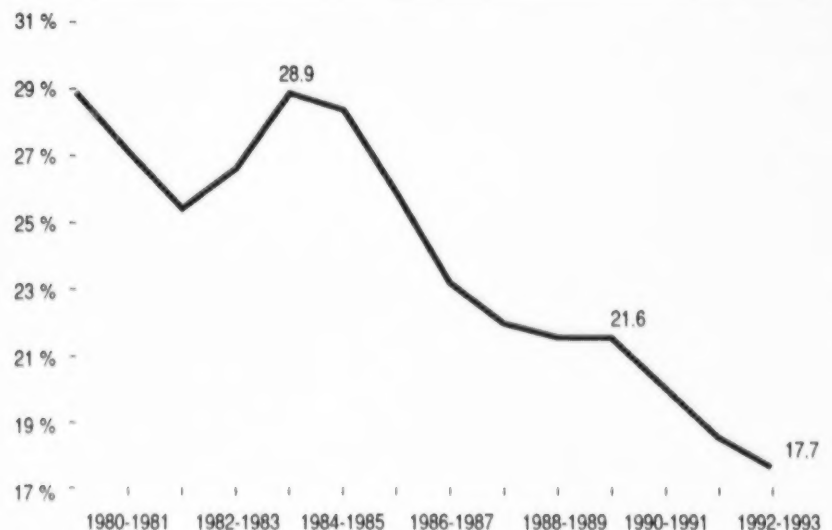
1 Corresponds to the portion in cash of federal transfers, which also comprise a fiscal element in the form of tax transfers included in the provinces' own-source revenue. In 1989-1990, tax transfers totalled \$ 3.8 billion in Québec.

2 To attribute the amounts to the year in which they are received.

As a result, cash transfers, which represented 28.9 % of budgetary revenue in 1983-1984, accounted for no more than 21.6 % in 1989-1990. Additional cutbacks in the last federal budget will bolster this trend, reducing the proportion to only 17.7 % in 1992-1993.

1 The federal government transfer programs to the provinces consist of the equalization program, Established Programs Financing (EPF) for health and post-secondary education, the Canada Assistance Plan (CAP) under which the federal government finances 50 % of the expenditures admissible for social aid and welfare programs, and many other programs (regional economic development agreements, manpower training, legal aid, etc.). Total federal transfers to the provinces are made up of cash transfers and tax transfers.

FEDERAL CASH TRANSFERS (as a percentage of budgetary revenue)



If the structure of the programs is not changed, annual growth of cash transfers to Québec on an accrual basis will be in the area of 1 % over the next ten years, placing ever more pressure on Québec's public finances.

Gradual withdrawal of federal government

The federal government's financial withdrawal in Québec is evident on several fronts : repeated cuts in Established Programs Financing, a reduction in the budgets appropriated for regional economic development, a freeze on the contribution to the legal aid program, to the young offenders agreement and to the public utilities income tax transfer program, the partial indexation of the budget earmarked for the agreement on the official languages in education and, lastly, the withdrawal of its plan to support the development of child day care services. In several cases, programs are at stake that were developed by the provinces as a result of federal initiatives guaranteeing a financial contribution that was later called into question.

The evolution of total transfers favours the affluent Canadian provinces

The Constitution Act, 1982 states in sections 36(1) and 36(2) :

"(1)... the government of Canada and the provincial governments, are committed to

(a) promoting equal opportunities for the well-being of Canadians ;

(b) furthering economic development to reduce disparity in opportunities ;
and

(c) providing essential public services of reasonable quality to all Canadians.

(2) Parliament and the government of Canada are committed to the principle of making equalization payments to ensure that provincial governments have sufficient revenues to provide reasonably comparable levels of public services at reasonably comparable levels of taxation."

Despite these constitutional commitments, federal transfers are going increasingly to the affluent provinces.

Federal transfers channelled increasingly towards affluent provinces

An examination of the latest data available in the provincial economic accounts shows that this trend grew stronger between 1984 and 1988. During that period, total federal transfers registered an average annual growth of 3.5 % in Québec, 5.7 % in the less affluent provinces, that is, in the equalization-receiving provinces and the territories, and 7.7 % in the affluent provinces, including 8.1 % in Ontario.

TRANSFERS TO PROVINCES AND TERRITORIES INCLUDING TAX TRANSFERS (interprovincial distribution in percentage)

Year	Canada		Québec	Ontario
	Less affluent ¹	Affluent ²		
1981	58.7	41.3	33.2	25.3
1984	58.0	42.0	33.6	25.1
1987	55.9	44.1	30.7	26.8
1988	56.2	43.8	29.9	26.6
1988/1984 growth ³	5.7	7.7	3.5	8.1

Sources : Statistics Canada, Provincial Economic Accounts and ministère des Finances du Québec.

1 Newfoundland, Prince Edward Island, Nova Scotia, New Brunswick, Québec, Manitoba, Saskatchewan, Northwest Territories and Yukon.

2 Ontario, Alberta and British Columbia.

3 Annual compound growth rate of transfers to provinces, in percentage.

These results are not surprising, given the dynamics of the main transfer programs, which are based on the population and the spending capacity¹ of the provinces.

Two factors account for the weak growth in federal transfers in the less affluent provinces, and a third factor will underscore this tendency in the years to come :

- ☐ the repeated cutbacks on a per capita basis in Established Programs Financing, regardless of a smaller fiscal capacity ;
- ☐ the weak growth in transfers allocated under the shared-cost programs (their capacity to spend is lower, so they must keep tighter control over their expenditure even though their requirements are as great or greater than those of the other provinces) ; and
- ☐ the ceiling on the equalization program, which significantly limits the growth in the revenue the receiving provinces would normally receive.²

(a) Established Programs Financing (EPF) : unfair cuts in a program that, essentially, does not take regional disparities into account

EPF is the most important transfer program for the provinces. In 1989-1990, it disposed of close to \$ 20 billion, or a little more than 56 % of the total \$ 35 billion transfer budget. Since this program grants transfers on a uniform per capita basis to all the provinces, over 57 % of the funds were paid to the affluent provinces.

Since 1982, the federal government has cut unilaterally into EPF on several occasions.

Total federal cutbacks in Established Programs Financing (health and post-secondary education) :
\$ 1.3 billion in 1990-1991

The two-year freeze on the per capita increase in transfers in the health and post-secondary education sectors announced in the latest federal budget represents a loss of \$ 221 million for Québec in 1990-1991 and \$ 1.9 billion over five years. This measure is the latest in a series of unilateral cuts in the program over the past decade, bringing the shortfall for Québec to \$ 1.3 billion for 1990-1991 alone.

¹ The capacity to spend refers to the capacity to levy taxes after equalization payments and the debt burden of the provinces.

² Under the existing fiscal arrangements, annual equalization entitlements in Canada are limited to the amount obtained by adjusting 1987-1988 entitlements to the growth of the gross national product. This provision deprived Québec, for instance, of \$ 332 million with respect to the estimation of its 1988-1989 entitlement.

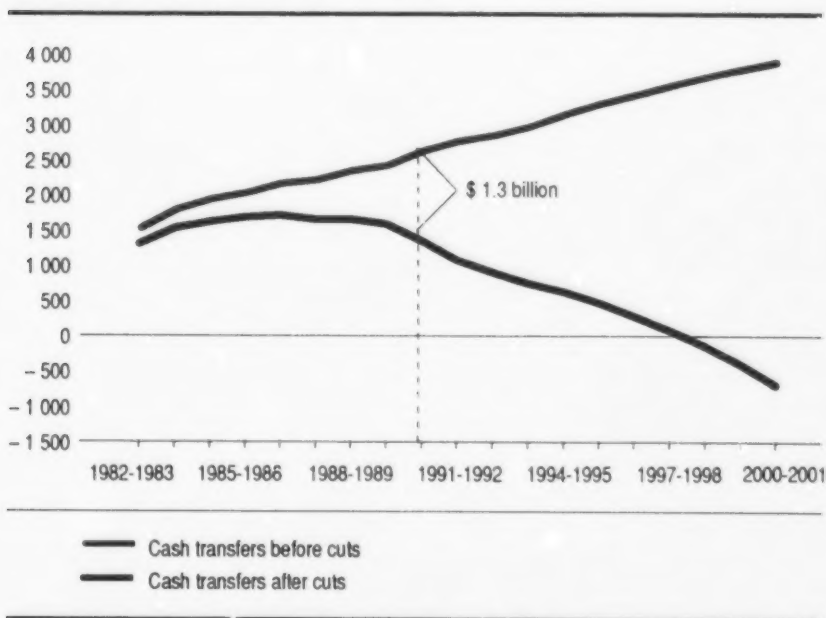
IMPACT OF FEDERAL EPF CUTS 1990-1991 FISCAL YEAR (in millions of dollars)

Year	Restriction	
1982	End of compensation for abolition of revenue guarantee payments ¹	401
1983	Increase in contribution to post-secondary education limited to 6 % and 5 % in 1983-1984 and 1984-1985 respectively	103
1986	Two-percentage-point reduction in total contribution indexing factor	530
1989	Additional one-percentage-point reduction in total contribution indexing factor	51
1990	Two-year freeze on per capita contribution	221
Total cost of restrictions to Québec		1 306

¹ The objective of the revenue guarantee program set up in 1972 following the federal tax reform was to protect the provinces against losses in revenue as a result of the reform. It played its role until 1977, when the federal government decided to put an end to it, but agreed, as partial compensation, to increase its contribution to EPF by two personal income tax points. Moreover, the compensation was granted to provinces provided they agree to integrate the hospital insurance program into EPF from 1977.

If no changes are made to the program, the reduction in the total federal contribution to EPF will therefore mean a zero cash transfer to Québec within ten years.

IMPACT OF FEDERAL EPF CUTS ON CASH TRANSFERS, QUÉBEC (on an accrual basis, in millions of dollars)



— ***Expenditure in the health and post-secondary education sectors and federal financing : a growing imbalance***

With the federal government withdrawal, most of the financing for health and higher education, two rapid-growth sectors, will have to come out of the proceeds of taxes paid to the Québec government. This burden on the taxpayer will only grow heavier as the 21st century begins. It will put a serious strain on the stability of public finances and the competitiveness of the Québec economy.

In order to preserve the improvements it has made in its taxation system, the Québec government will have to make a difficult choice : substantially restrict growth in expenditure in the health and higher education sectors, which already account for 35 % of the budget, reduce expenditure in other areas yet further, or allow the deficit to grow. This last possibility would result in a severe deterioration of the Québec government's financial position.

— ***Equal per capita cuts in EPF threaten the stability of public finances in the less affluent provinces***

The federal withdrawal is particularly serious with respect to regional disparities since it will be more difficult for less affluent provinces to absorb the cuts than it will be for provinces with a greater financial capacity.

For example, since the average income of Québec taxpayers is not as high as that of Ontario taxpayers, the Québec government has less tax-levying potential. Ontario's fiscal capacity is 12.8 % greater than Québec's even after equalization payments. To make up for the \$ 1.3 billion shortfall in EPF for 1990-1991, Québec would have to raise its tax rates 12.8 % more than Ontario would for equivalent cutbacks. In the long term, this kind of cut will undermine Québec's efforts to create a competitive taxation system. Had the cuts been established in relation to fiscal capacity, they would have been \$ 148 million lower for Québec.

(b) Shared-cost programs

Shared-cost programs represented 24 % of federal transfers in 1989-1990, or a little over \$ 8 billion.¹ As they exist at present, these programs do not contribute sufficiently to a reduction in regional economic disparities in Canada since they fail to take into account the provinces' capacity to spend.

In fact, in this context, the more a province can spend, the more federal transfers it receives. The transfers associated with these programs are thus channeled increasingly towards the affluent provinces.

Under these game rules, the less affluent provinces are at a disadvantage :

- ☐ they are less able to spend since they have a greater debt than the affluent provinces, and they are less able to levy taxes, even after equalization ;
- ☐ the sectors covered by the shared-cost programs, such as income security, often have greater needs in these provinces and therefore constitute a greater burden.

¹ This total includes all the federal transfer programs except EPF and the equalization program. Although most of these programs are shared-cost programs, some of them use other formulae for allocating federal funds.

Sound financial management in the less affluent provinces therefore requires tight control over expenditure. The shared-cost formula acts as an incentive for these provinces to spend beyond their means in some cases in order to obtain federal funds. This also applies in sectors they do not always consider priorities. Moreover, the federal government imposes standards of service. Given these factors, the provinces that opt for efficient resource management are penalized.

Two examples will serve to illustrate this situation : the Canada Assistance Plan (CAP) and the social housing programs.

— Canada Assistance Plan

Under the Canada Assistance Plan, the federal government shoulders 50 % of the admissible social aid and welfare service expenditures of the provinces. The provinces are all treated in the same way, regardless of their capacity to spend or their relative requirements.

The less affluent provinces have relatively greater income security needs than the others. However, in recent years, expenditure in this sector has grown much more rapidly in Canada's affluent provinces. Federal transfers have thus risen more steeply in those provinces than in the provinces where needs are relatively greater. Between 1984-1985 and 1989-1990, the amounts transferred under the CAP grew an average 2.6 % in Québec, 3.6 % in the less affluent provinces and 9.6 % in the affluent provinces, including 13.3 % in Ontario.

In the latest federal budget, a 5 % limit was set on growth in CAP transfers for the next two years in the provinces that do not receive equalization payments, namely Ontario, Alberta and British Columbia. This is described as a temporary measure, however, whose financial impact will be small compared with the total cutbacks in EPF.

— Social housing programs

Between 1986 and 1989, federal commitments to social housing grew annually by 1.6 % in Québec, 8.7 % in the less affluent provinces and 17.7 % in the affluent provinces, including 19.9 % in Ontario. These disparities arise in essence from the formula for distributing federal funds. Given their financial capacity, the less affluent provinces must streamline their expenditures here as elsewhere. Since the federal distribution formula takes into account the cost of a project, without considering the capacity of the respective provinces to assume their share of the burden, the affluent provinces are at an advantage. As a result, in some cases, the way in which the federal budget is allocated fails to match observed needs. This allocation of federal transfers can only contribute to greater economic disparities in Canada.

FEDERAL BUDGETS FOR SOCIAL HOUSING IN 1986 AND 1989

	Canada											
	Less affluent			Affluent			Québec			Ontario		
	Budget		Needs ¹	Budget		Needs ¹	Budget		Needs ¹	Budget		Needs ¹
	\$M	%	%	\$M	%	%	\$M	%	%	\$M	%	%
1986	1 294	49	—	1 370	51	—	662	25	—	894	34	—
1989	1 661	43	46	2 235	57	54	695	18	29	1 542	40	30
1989/1986 growth ²	8.7			17.7			1.6			19.9		

Sources : Canada Mortgage and Housing Corporation and Statistics Canada.

1 Core needs determined on the basis of household income, condition of housing and occupancy density. The notion of core needs was not used in 1986.

2 Annual compound rate, in percentage.

Regional economic development agreements

Regional economic development agreements should be a front-line tool for enabling the less affluent provinces to set up economic structures that will foster their potential for long-term growth. Unfortunately, the federal government has been diminishing the importance of these programs for several years now, particularly in Québec. These programs are nevertheless an essential complement to equalization in the struggle to reduce economic disparities. A sector characterized by such great needs should not bear the burden of the reduction in the federal deficit. In Québec, the budgets allocated to the agreements and used in recent years to develop and support growth sectors are depleted and there is nothing to indicate that the federal government plans to take action. This situation is particularly serious since the federal government is actually questioning its redistributive role by not directly supporting the less affluent provinces as they strive for lasting economic development.

(c) Large disparities in fiscal capacities subsist despite the equalization program

The purpose of the equalization program is to give provincial governments sufficient revenue to provide comparable levels of public services at comparable levels of taxation. Because of the standard applied to equalization, even after compensation, a 15.7 % discrepancy in fiscal capacity remained between the affluent and the less affluent provinces in 1989-1990. This discrepancy is increased by the ceiling set under the equalization program. Otherwise, it would be 14.2 %.

INDEX OF FISCAL CAPACITY OF PROVINCIAL AND LOCAL GOVERNMENTS, 1989-1990
 (Canada = 100)

	NFLD.	P.E.I.	N.S.	N.B.	QUÉ.	ONT.	MAN.	SASK.	ALTA.	Provinces			
										B.C.	Receiving	Non-receiving ¹	Differential ² in %
Before equalization	62.4	64.5	75.9	71.1	85.7	110.3	80.6	86.6	135.6	104.5	82.1	113.2	37.9
After equalization (before ceiling)	92.5	92.5	92.5	92.5	92.5	102.8	92.5	92.5	126.5	97.4	92.5	105.6	14.2
After equalization (after ceiling)	91.7	91.7	91.7	91.7	91.7	103.4	91.7	91.7	127.1	97.9	91.7	106.1	15.7

Source : Federal Department of Finance, 4th estimate of equalization entitlements 1989-1990.

1 Ontario, Alberta, British Columbia.

2 As a percentage of the fiscal capacity of receiving provinces.

The ceiling provision of the equalization program means that, for a given year, total entitlements in Canada cannot increase at a greater rate than the amount obtained by adjusting the 1987-1988 entitlements to the growth in the gross national product. The ceiling already applies to 1988-1989 entitlements and will also apply to the forecast period. The following table shows substantial losses in revenue for Québec and the other equalization-receiving provinces because of the program's ceiling. This provision diminishes the program's ability to reduce economic disparities in Canada.

IMPACT OF CEILING ON EQUALIZATION ENTITLEMENTS
 (on an accrual basis, in millions of dollars)

	1988-1989	1989-1990	1990-1991
Québec	- 332	- 348	- 388
Receiving provinces	- 552	- 576	- 642

Source : Ministère des Finances du Québec.

To summarize :

The mechanics of the federal transfer programs create a serious problem for the Québec government. The cash transfers to Québec have levelled off since the beginning of the 1980s, while, for some years now, the dynamics of the programs have been working to the disadvantage of the less affluent provinces. In the past, Québec has been seriously hampered by this situation and its inability to manoeuvre will only increase unless the very bases of the programs are changed.

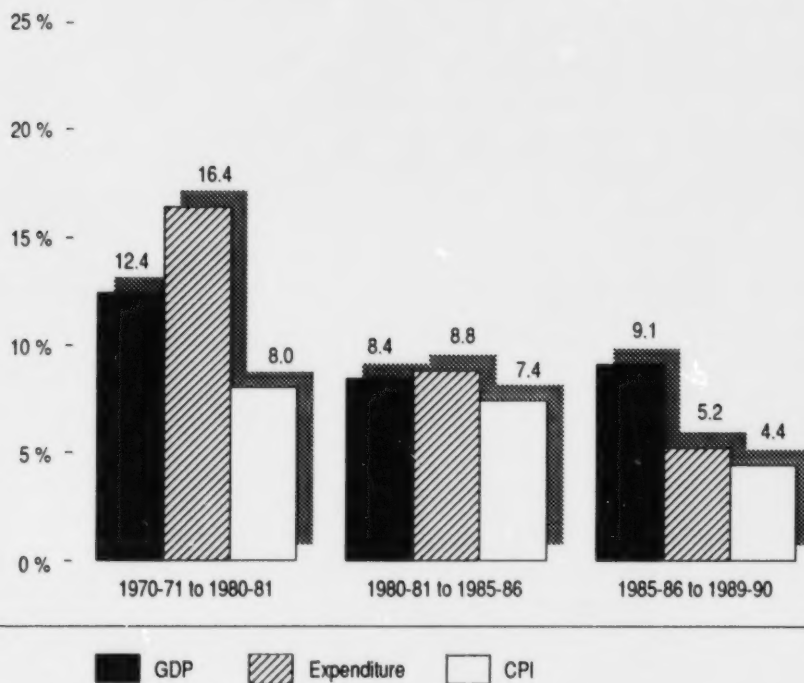
2.3 Pressure on expenditure

Rigorous control over expenditure since 1985-1986

Share of expenditure in GDP falls

Public finances have improved since 1985-1986 because expenditure has been rigorously controlled. The share of expenditure in the GDP fell from 25.3 % in 1985-1986 to 21.8 % in 1989-1990.

ANNUAL GROWTH RATE OF GDP, EXPENDITURE AND CPI (in percentage)



Expenditure too high in relation to capacity to spend

Rigorously controlled expenditure also reduced the large disparity between Québec and Ontario under this heading in 1985-1986. The consolidated data of the provincial government, the school boards and the local authorities show that Québec's entire public sector spent 17 % more per capita in 1985-1986 than Ontario's. This discrepancy shrunk to only 1 % in 1989-1990.

EXPENDITURE OF THE PUBLIC SECTOR¹
(in \$ per capita)

	1985-1986	1989-1990
Québec		
Program expenditure	4 353	5 256
Interest on debt	744	905
Total expenditure	5 097	6 161
Ontario		
Program expenditure	3 934	5 584
Interest on debt	423	512
Total expenditure	4 357	6 096
Comparison between Québec and Ontario (Ontario = 100)		
Program expenditure	111	94
Interest on debt	176	177
Total expenditure	117	101

¹ Includes the provincial government, school boards and municipal administrations. For the provincial government, data are adjusted to exclude the impact of pre-recording expenditure.

However, on the basis of an indicator of the capacity to spend such as the GDP, expenditure is still 24 % higher in Québec's public sector than in Ontario's. In 1985-1986, the disparity was 44 %.

EXPENDITURE OF THE PUBLIC SECTOR
(as a percentage of GDP)

	1985-1986	1989-1990
Québec		
Program expenditure	26.3	22.9
Interest on debt	4.5	4.0
Total expenditure	30.8	26.9
Ontario		
Program expenditure	19.3	19.9
Interest on debt	2.1	1.8
Total expenditure	21.4	21.7
Comparison between Québec and Ontario (Ontario = 100)		
Program expenditure	136	115
Interest on debt ¹	217	217
Total expenditure	144	124
Total expenditure after equalization²	132	113

¹ As figures have been rounded off, the index does not correspond exactly to the Québec/Ontario ratio.

² The index was calculated after the value of equalization payments received from the federal government had been subtracted from Québec public sector expenditure.

Expenditures exceed capacity to spend by
some \$ 5 billion

Even when these data are adjusted to take account of sums received under the federal equalization program, the objective of which is to enable all the provinces to provide comparable levels of public services at comparable levels of taxation, Québec still spends 13 % more than Ontario. This disparity represents about \$ 5 billion more than Québec is able to spend. A large proportion of this difference is due to the debt service, which is much higher in Québec than in Ontario.

**Controlling the growth of expenditure :
an increasingly difficult task**

The tight control over expenditure for the past four years was a decisive factor in the improvement in government finances. However, it will be difficult to obtain similar results in the future.

— Further cutbacks are increasingly difficult

In order to curb growth in expenditure, the government applied general measures to cut back on the budgets of most departments and agencies and reacted to new requirements by reallocating existing resources. These measures were reflected in, among other things, more efficient public services and the abandonment of certain less important activities.

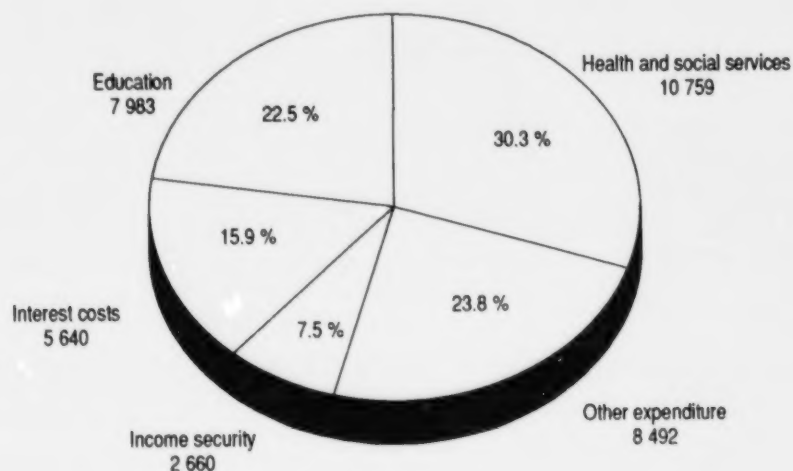
There is less and less room for manoeuvring along these lines, however. In the present context of resource management, the growth in productivity tends to slow down progressively and, once the activities that are not considered priorities have been reduced or abandoned, it becomes increasingly difficult to make further cutbacks of that nature. These means are no longer sufficient to control rising expenditure.

**— Health care and social services, education, income security and
interest costs account for three-quarters of expenditure**

There is a limit to what can be done to control expenditure, since health care and social services, education and income security account for over 60 % of government expenditure, and interest costs push this figure up to 75 %.

Consequently, unless the main efforts to control expenditure are concentrated on only 25 % of the budget, including highly important sectors of government activity as well, it will be necessary to reexamine the ways in which certain services are organized or financed and take a fresh look at the distribution of responsibilities between provincial and local levels of government.

**BREAKDOWN OF BUDGETARY EXPENDITURE
1990-1991 FISCAL YEAR
(in millions of dollars)**



— Accelerating growth in expenditure

Moreover, while it was possible in 1986-1987 and 1987-1988 to substantially cut back growth in "other expenditure", this has not been the case since 1988-1989 when such expenditure grew at a rate of over 6 %.

GROWTH IN EXPENDITURE,¹ BY CATEGORY
(in percentage)

	1986-1987	1987-1988	1988-1989	1989-1990	1990-1991	1990-91/ 1985-86 ⁴
Health and social services ²	6.1	8.2	7.8	8.2	7.3	7.5
Education ³	3.1	6.0	6.3	1.8	6.3	4.7
Income security	0.2	- 0.3	0.5	5.8	- 2.2	0.7
Interest costs	6.4	4.9	3.3	10.0	7.1	6.4
Other expenditure	- 1.1	3.5	6.5	6.9	7.4	4.6
Total	3.1	5.2	5.9	6.5	6.3	5.4
CPI	4.1	4.4	4.1	5.0	4.8	4.5

1 Data adjusted to exclude the impact of pre-recording expenditure.

2 Expenditure of the ministère de la Santé et des Services sociaux and of the Régie de l'assurance-maladie du Québec, except subsidies for the payment of interest, which are included in interest costs.

3 Expenditure of the ministère de l'Éducation and of the ministère de l'Enseignement supérieur et de la Science, except subsidies for the payment of interest, which are included in interest costs.

4 Annual compound growth rate.

Similarly, in the past year, interest costs have risen by 10 %, reflecting, notably, the increase in interest rates that began in early 1988.

— *New requirements*

Québec's new requirements call for ever greater financial resources

The growing requirements of Québec society are another factor exerting pressure on expenditure. For instance, each year the government must devote additional amounts to the health and social services sector because of the aging of the population, the growing number of elderly people requiring assistance, the use of increasingly expensive medical technologies, existing institutional structures which allow for few increases in productivity and, lastly, the manner in which services are organized under the health insurance plan.

The government must also provide resources to deal with new priorities in Québec, such as financial support for families. The integration of immigrants into Québec society will also require more and more financial support if it is to be achieved in a harmonious manner.

Major financial resources are earmarked for technological research and development in Québec. Along the same lines, manpower training must be encouraged if Québec's private sector is to keep abreast of new technology and increase its competitive edge on international markets.

Over the years, Québec has accumulated numerous infrastructures : the road network, bridges, facilities in the health and education sectors, and so forth. Given the efforts made in the past and the slowdown in population growth in Québec, there is no longer the same need to invest in new capital assets. However, greater financial resources must be set aside for maintaining and repairing existing infrastructures.

Lastly, the environment has become a higher priority than ever for Québec society. The protection of the environment is essential to Québec's long-term economic development. Technologies must be developed to perfect processes and products that will not harm the environment and financial resources must be allocated to activities such as prevention, monitoring and control in order to protect the environment.

To summarize :

Although the government has exerted tight controls over the growth in expenditure since 1985-1986, the present level of budgetary expenditure is still too high, compared with Québec's capacity to spend. Moreover, it is becoming increasingly difficult to stabilize growth in expenditure : high-priority sectors account for three-quarters of budgetary expenditure, growth in expenditure is accelerating, it is increasingly difficult, from one year to the next, to apply general measures to control the budget and greater financial resources are needed to meet new requirements.

3. Maintaining past achievements despite new constraints

As preceding sections have clearly shown, public finances will have to be managed in the coming years under far greater constraints than in the last half of the 1980s. Economic growth will be less vigorous as a result of the federal government's and the Bank of Canada's decidedly more restrictive macroeconomic policies, and because of slower growth in the labour force. Moreover, federal transfers will continue to stagnate. It will be increasingly difficult to contain growth in spending.

Despite these constraints, we must preserve improvements in terms of the government's financial position and competitive tax system. Increasing the deficit would lead to constant growth in the portion of revenue allocated to debt service and, subsequently, to a reduction in public services. Similarly, increasing taxes could jeopardize the Québec economy's potential for growth at a time of increasingly widespread international competition.

A \$ 700-million annual gap

Sustaining what has been achieved is a major challenge. Various constraints weigh heavily on the management of the government's financial framework. As the following table shows, a \$ 700-million annual gap may result.

GAP TO BE OFFSET TO MAINTAIN THE DEFICIT AT A CONSTANT LEVEL (in millions of dollars)

	Increase in revenue and expenditure ¹
	Assumption : Real Domestic Product = 2.7 % Inflation = 5.0 %
Own-source revenue ²	1 881
Federal transfers ³	81
Total budgetary revenue	1 962
Budgetary expenditure (change in CPI + 3 %)	2 674
Annual gap to be offset to maintain the deficit at a constant level	712

¹ According to data for fiscal 1989-1990.

² Own-source revenue grows at the same rate as the GDP, which corresponds to its long-term evolution.

³ The long-term growth rate of federal transfers has been estimated at 1.2 %.

When the tax structure is kept constant, the government's own-source revenue more or less keeps abreast of economic growth. Should the Québec economy grow at the same rate as the Canadian economy in the coming years, that is, by 2.7 %, and should inflation reach 5.0 %, ¹ the government's own-source revenues should increase by nearly \$ 1.9 billion a year.

¹ Economic Council of Canada, Twenty-sixth Annual Review, 1989, Legacies, p. 25.

Long-term growth in federal transfers should reach 1.2 % a year, and total roughly \$ 80 million. All told, budgetary revenue should grow by almost \$2 billion a year in the coming years.

To keep the deficit constant without increasing the tax burden, growth in budgetary expenditure should be kept at the same level.

\$ 700-million annual gap to be dealt with

The structural growth in spending, that is, growth which would occur were government programs to be renewed year after year without streamlining them or calling certain programs into question, is much higher than that. It totals nearly \$ 2.7 billion a year, an increase three percentage points higher than inflation. Consequently, it would appear that the government will have to deal with a \$ 700-million annual gap in the coming years. While the government has had to solve problems of this magnitude in the past, its task will be increasingly difficult in the 1990s.

4. Plan of action

Despite pressure on revenue and expenditure, the government must maintain a competitive taxation system and sound financial management, as explained previously.

With regard to the taxation system, the government must :

Need for a competitive taxation system

- ☐ not excessively tax production in Québec ; to this end, it must reduce those taxes which most directly affect competitiveness, including personal income tax ;
- ☐ pursue policies adopted in recent years to attract the most highly qualified manpower to Québec and increase the incentive to work ;
- ☐ maintain structuring measures in the corporate taxation system, particularly with respect to investment, research and development and manpower training ; and
- ☐ reapportion the tax burden according to the responsibilities assumed by various levels of government.

In financial terms, the government must :

Need for a sound financial position

- ☐ balance the current account in the medium term ; and
- ☐ when economic growth allows, generate surpluses to offset part of its accumulated debt.

Three courses of action are open to the government to achieve these objectives :

- ☐ spur potential economic growth ;
- ☐ press for improvements in federal policies ; and
- ☐ satisfy needs while stabilizing growth in government spending.

Spurring potential economic growth

At present, the Québec economy is in decidedly better shape than five or ten years ago, because of improvements in the taxation system and public finances, and the adoption of structuring policies. Changes in Québec's industrial structure and the emergence of dynamic entrepreneurship have made the Québec economy more competitive. To meet the challenges of the 1990s, we must go even further.

A framework for bolstering the productivity and competitiveness of Québec's economy

Despite considerable improvements, unemployment is still too high, the result of structural shortcomings which affect competitiveness. To reduce unemployment, the government and the private sector must work together to increase investment in the basic elements of competitiveness — plant and process modernization, research and development, technological innovation and manpower training.

When it intervenes, the government has ensured that it does not supplant the private sector, as investment decisions offer the best guarantee of profitability when they are reached by those who must assume risks. It is in this perspective that the government plans to foster investments designed to bolster productivity and competitiveness. This is the only course, in the 1990s, which will create durable, remunerative jobs and permanently reduce unemployment.

Pressing for improvements in federal policies

Rethinking transfers to the provinces

The federal government is currently facing two serious problems, that is, a high level of debt and, contrary to its constitutional commitments, transfers which are increasingly going to the affluent provinces. Until now, Ottawa contained increases in transfers with equal per capita cuts. Consequently, the less affluent provinces are finding it harder and harder to offer similar public services at taxation rates similar to those prevailing in the provinces overall.

A more equitable distribution of federal transfers among the provinces

A change of course is imperative. Transfer programs must be revamped, primarily with a view to reducing economic disparities in Canada. The very notion of shared-cost programs must be reviewed, among other things, to ensure that the federal government does not penalize the provinces which manage their finances prudently. Similarly, programs which offer the same per capita transfer regardless of the provinces' financial capacities are hardly suited to promoting equal opportunities in Canada.

Other federal policies and programs must also diminish regional disparities

Other federal government spending programs must also seek to reduce regional disparities in Canada. This means that such programs must not undermine the objective the federal government pursues through the equalization program. The federal government must strive to bolster the economic potential of the less affluent provinces to ensure that they ultimately no longer rely on transfer programs.

For the same reasons, it is vital to better coordinate federal monetary and fiscal and budgetary policies. For example, the high interest rates adopted by the Bank of Canada adversely affect the less affluent provinces which, generally speaking, are not the first provinces in the economic cycle to experience inflationary pressures. For this reason, the negative effects of federal monetary policy must be offset by appropriate regional adjustments in federal fiscal and budgetary policies.

Québec's proposals

The Québec government will submit to the federal and other provincial governments various proposals to ensure that the federal government fully assumes its role with regard to redistributing resources in Canada. Impending negotiations to renew the fiscal arrangements should make it possible to achieve a more balanced distribution of resources to the provinces, reflecting the responsibilities they must assume.

To ensure that taxpayers receive the most extensive public services possible for their tax dollars, the federal and provincial governments must cooperate more fully in areas where they intervene jointly, to avoid duplications and administrative inflexibility.

Satisfying needs while stabilizing growth in spending

Over the medium range, the Québec government's financial position will depend on the outcome of discussions with Ottawa to modify federal transfer programs, and the vigour of the Québec economy. Beyond these basic questions, maintaining a competitive tax system and sound public finances will also demand that the government continue to control growth in spending.

Annual increases in spending depend on changing costs, wages and clientele; such increases are inevitably subject to pressure from intervening parties at all levels. Since 1986-1987, the government has succeeded in controlling growth in spending, primarily by reducing costs, improving productivity, and reallocating appropriations to finance high-priority expenditures.

In the coming years, the government must continue to seek enhanced efficiency in managing public finances. However, it will be impossible to face this challenge without redefining the areas of intervention of the public sector and further decentralizing responsibilities.

Redefining the areas of intervention of the public sector

Current government spending reflects the sectorial policies of public services which were developed during the 1960s and 1970s and reached maturity during the 1980s. The policies were often based on the notion of free, universal services, to ensure the broadest access possible. While the policies ensured Québec's rapid growth, they also led to growth in public spending, making it increasingly difficult to achieve a balance between supply and demand.

Streamlining public sector activities to meet high-priority needs

Québec has reached a stage where it must review past choices concerning the operation of major public services and the best means of financing its public services, while ensuring accessibility and protecting the underprivileged members of society.

This examination should also cover the services now offered. Priorities change. Further streamlining services would make it possible to channel more funds toward high-priority needs. This is the only way to stabilize, over the long run, the role of the public sector in Québec's economic and social life.

Decentralizing responsibilities

The provincial government level is not always the best suited to satisfy certain expectations and needs in society.

More efficient public services

A new division of responsibilities between the provincial government, the municipalities and school boards should be contemplated, as standardized systems do not always make it possible to take into account the specific needs of residents of various regions. Local managers are closer to their clientele and are often able to make better choices and more accurately elaborate measures with a view to streamlining resources.

There must be a more responsive relation between the cost of providing services and the responsibility for raising the funds to finance such services. By adopting a twofold constraint (costs and revenues) we can more efficiently manage the supply of public services. Decentralizing responsibilities should be accompanied by new sources of financing.

Conclusion

The approach that the Québec government is proposing today is essential if the Québec economy is to be robust and competitive. It is a rigorous approach which involves sustained creativity and compels Quebecers to examine new avenues. Only this approach will allow us to meet the challenge of the 1990s.

APPENDIX E

Addendum I

**Additional information
on the financial position
of the Québec government**

Table 1.1
SUMMARY OF FINANCIAL TRANSACTIONS
 (in millions of dollars)

	1970-1971	1971-1972	1972-1973	1973-1974	1974-1975	1975-1976	1976-1977	1977-1978	1978-1979
1. Budgetary transactions									
Own-source revenue	2 676.1	3 115.2	3 680.5	4 268.3	5 274.7	6 019.7	7 040.9	7 842.9	8 345.0
Federal transfers	1 124.3	1 316.9	1 267.8	1 391.0	1 888.1	2 243.7	2 540.1	3 110.3	3 305.5
Budgetary revenue	3 800.4	4 432.1	4 948.3	5 659.3	7 162.8	8 263.4	9 581.0	10 953.2	11 650.5
Budgetary expenditure	- 3 935.4	- 4 777.9	- 5 268.7	- 6 299.0	- 7 565.0	- 9 191.3	- 10 724.7	- 11 612.2	- 13 138.0
Budgetary deficit	- 135.0	- 345.8	- 320.4	- 639.7	- 402.2	- 927.9	- 1 143.7	- 659.0	- 1 487.5
2. Non-budgetary transactions									
Investments, loans and advances	- 72.6	- 62.9	- 52.6	- 121.8	- 146.0	- 185.9	- 182.5	- 228.7	- 188.3
Retirement plans account	1.6	1.1	- 0.5	24.6	104.3	109.1	186.4	264.4	315.7
Other accounts	15.6	104.1	- 8.4	440.1	278.8	599.1	- 193.3	- 545.7	88.8
Balance	- 55.4	42.3	- 61.5	342.9	237.1	522.3	- 189.4	- 510.0	216.2
3. Net financial requirements	- 190.4	- 303.5	- 381.9	- 296.8	- 165.1	- 405.6	- 1 333.1	- 1 169.0	- 1 271.3
4. Financing									
Change in cash position	- 52.1	- 143.2	- 8.7	- 73.9	- 181.8	- 513.7	330.7	372.4	49.6
New borrowings	372.7	569.6	579.6	638.2	586.1	1 206.3	1 354.6	1 042.3	1 575.5
Change in debt resulting from amortization of variation in foreign exchange	—	—	—	—	—	—	—	12.5	19.4
Repayment of borrowings	- 130.2	- 122.9	- 189.0	- 267.5	- 239.2	- 287.0	- 352.2	- 258.2	- 373.2
Total	190.4	303.5	381.9	296.8	165.1	405.6	1 333.1	1 169.0	1 271.3

Note: A negative entry indicates a financial requirement and a positive entry, a source of financing. For comparison purposes, the data are based on the budgetary and financial structure in force in fiscal 1990-1991.

1979-1980	1980-1981	1981-1982	1982-1983	1983-1984	1984-1985	1985-1986	1986-1987	1987-1988	1988-1989	1989-1990
9 272.5	10 560.6	13 237.6	14 361.7	15 402.4	15 804.7	17 762.6	19 487.4	21 953.9	23 344.3	24 424.0
3 777.8	3 919.5	4 506.5	5 194.3	6 250.1	6 260.7	6 221.0	5 872.1	6 175.9	6 450.5	6 727.0
13 050.3	14 480.1	17 744.1	19 556.0	21 652.5	22 065.4	23 983.6	25 359.5	28 129.8	29 794.8	31 151.0
-15 399.5	-17 930.2	-20 322.1	-21 975.0	-23 753.3	-25 861.1	-27 327.5	-28 178.7	-30 504.0	-31 408.0	-32 751.0
-2 349.2	-3 450.1	-2 578.0	-2 419.0	-2 100.8	-3 795.7	-3 343.9	-2 819.2	-2 374.2	-1 613.2	-1 600.0
-188.2	-56.3	-586.6	-761.1	-671.7	-167.4	40.4	-379.7	-680.3	-669.5	-579.0
682.8	822.3	1 007.3	1 051.2	1 056.7	1 183.5	1 269.0	1 354.8	2 203.0	1 634.0	1 196.0
480.8	362.7	3.0	-107.9	-535.4	766.4	294.5	93.5	-527.6	-310.2	218.0
975.4	1 128.7	423.7	182.2	-150.4	1 782.5	1 603.9	1 068.6	995.1	654.3	835.0
-1 373.8	-2 321.4	-2 154.3	-2 236.8	-2 251.2	-2 013.2	-1 740.0	-1 750.6	-1 379.1	-958.9	-765.0
229.3	-456.1	207.9	-75.5	-13.7	-211.0	-18.0	-80.9	173.2	20.8	33.0
1 648.9	3 352.9	2 951.6	2 761.8	2 797.0	3 281.0	2 992.5	4 396.0	3 199.6	3 232.6	2 722.3
19.9	21.9	25.1	23.4	36.4	43.1	69.0	13.1	13.0	-45.5	-56.3
-524.3	-597.3	-1 030.3	-472.9	-568.5	-1 099.9	-1 303.5	-2 577.6	-2 006.7	-2 249.0	-1 934.0
1 373.8	2 321.4	2 154.3	2 236.8	2 251.2	2 013.2	1 740.0	1 750.6	1 379.1	958.9	765.0

Table 1.2
TOTAL GOVERNMENT DEBT¹ AT THE END OF THE FISCAL YEAR

	Direct debt ²		Retirement plans account		Total debt	
	In millions of dollars	As a % of GDP	In millions of dollars	As a % of GDP	In millions of dollars	As a % of GDP
1970-1971	2 478.5	11.0	—	—	2 478.5	11.0
1971-1972	2 919.7	12.0	—	—	2 919.7	12.0
1972-1973	3 309.2	12.2	—	—	3 309.2	12.2
1973-1974	3 678.8	11.9	—	—	3 678.8	11.9
1974-1975	4 029.9	11.1	67.2	0.2	4 097.1	11.3
1975-1976	4 955.3	12.1	179.1	0.4	5 134.4	12.5
1976-1977	6 035.0	12.7	354.2	0.7	6 389.2	13.4
1977-1978	7 111.0	13.6	619.6	1.2	7 730.6	14.8
1978-1979	8 325.0	14.3	915.4	1.6	9 240.4	15.9
1979-1980	9 472.0	14.6	1 598.2	2.5	11 070.2	17.0
1980-1981	12 247.0	17.0	2 420.5	3.4	14 667.5	20.3
1981-1982	14 184.0	17.4	3 427.8	4.2	17 611.8	21.6
1982-1983	16 485.0	19.1	4 488.7	5.2	20 973.7	24.3
1983-1984	18 880.0	20.5	5 545.4	6.0	24 425.4	26.5
1984-1985	21 216.0	21.0	6 728.9	6.7	27 944.4	27.7
1985-1986	23 633.0	21.9	7 997.9	7.4	31 630.9	29.3
1986-1987	25 606.0	21.8	9 352.7	8.0	34 958.7	29.8
1987-1988	26 819.0	20.5	10 882.7	8.3	37 701.7	28.8
1988-1989	27 091.0	18.8	12 596.7	8.7	39 687.7	27.6
1989-1990	27 704.0	18.1	14 385.8	9.4	42 089.8	27.5

¹ Data adjusted by excluding the impact of pre-recording 1987-1988 and 1988-1989 expenditures.

² Including Treasury bills and the government's long-term debt.

Table 1.3
CURRENT ACCOUNT BALANCE
(in millions of dollars)

	Budgetary expenditure (-)	Total capital expenditure ¹ (=)	Adjusted budgetary expenditure (+)	Budgetary revenue (=)	Current account balance ²
1970-1971	- 3 935.4	- 437.9	- 3 497.4	3 800.4	302.9
1971-1972	- 4 777.9	- 651.3	- 4 126.6	4 432.1	305.5
1972-1973	- 5 268.7	- 674.0	- 4 594.7	4 948.3	353.6
1973-1974	- 6 299.0	- 726.3	- 5 572.7	5 659.3	86.6
1974-1975	- 7 565.0	- 888.2	- 6 676.8	7 162.8	486.0
1975-1976	- 9 191.3	- 981.0	- 8 210.3	8 263.4	53.1
1976-1977	- 10 724.7	- 820.1	- 9 904.6	9 581.0	- 323.6
1977-1978	- 11 612.2	- 839.9	- 10 772.3	10 953.2	180.9
1978-1979	- 13 138.0	- 936.2	- 12 201.8	11 650.5	- 551.3
1979-1980	- 15 399.5	- 926.4	- 14 473.1	13 050.3	- 1 422.8
1980-1981	- 17 930.2	- 920.6	- 17 009.6	14 480.1	- 2 529.5
1981-1982	- 20 322.1	- 961.5	- 19 360.6	17 744.1	- 1 616.5
1982-1983	- 21 975.0	- 1 099.7	- 20 875.3	19 556.0	- 1 319.3
1983-1984	- 23 753.3	- 1 156.2	- 22 597.1	21 652.5	- 944.6
1984-1985	- 25 861.1	- 1 270.3	- 24 590.8	22 065.4	- 2 525.4
1985-1986	- 27 327.5	- 1 269.1	- 26 058.4	23 983.6	- 2 074.8
1986-1987	- 28 178.7	- 1 050.8	- 27 127.9	25 359.5	- 1 768.4
1987-1988	- 30 504.0	- 1 100.7	- 29 403.3	28 129.8	- 1 273.5
1988-1989	- 31 408.0	- 1 303.4	- 30 104.6	29 794.8	- 309.8
1989-1990	- 32 751.0	- 1 330.0	- 31 421.0	31 151.0	- 270.0

- 1 Including direct government capital expenditure, subsidies for capital expenditure purposes and part of the subsidies for the debt service pertaining to capital repayment.
- 2 Budgetary balance excluding total capital expenditure.



APPENDIX E

Addendum II

**Evaluation of the differential between
the tax burden in Québec and Ontario**

Tax burden differential

In recent years, the ministère des Finances has adopted a method of evaluating the tax burden differential of Québec taxpayers, which consists in alternately applying the tax structures of Québec and another jurisdiction to Québec's tax base. In this way, it is possible to quantify the differential between the tax burden of Québec taxpayers and the tax burden they would bear under another taxation system. The similarity of the Québec and Ontario economies and close trading ties between the provinces make Ontario a good basis for comparison.

To make it more simple, this method of evaluating the tax burden differential in Québec is based on a legal approach, in that taxes are imputed to taxpayers who are legally bound to pay them, pursuant to tax legislation, and not those who ultimately bear them. Proceeding in this fashion may occasionally overlook the practices of economic agents and no attempt is made to ascertain to what extent the taxes legally imposed on businesses are ultimately borne by individuals through higher prices on goods and services or lower wages paid by companies.

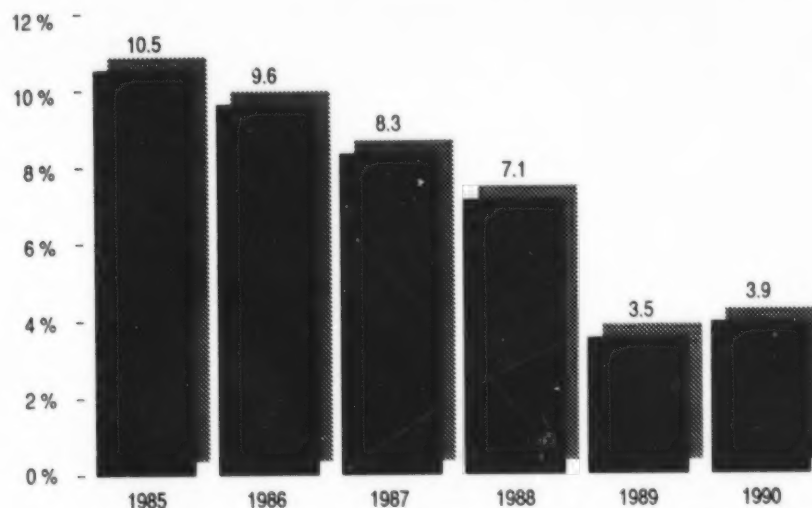
For example, the financing of the Ontario health plan, which has been paid for entirely by employers since January 1 of this year, was entirely borne by individuals, on a strictly legal basis. However, it would seem that employers were already voluntarily paying nearly 70% of health insurance premiums in the province. Moreover, economically, it is far from clear that the employer's contribution was not passed on to consumers.

Given the scope of the problem, it is advisable to consider the tax burden of all economic agents, whether individuals or businesses, in the private sector.

Changes in the tax burden differential of the private sector

Various fiscal measures introduced since 1985 with respect to personal taxation and transfers to individuals, investment in productive assets, research and development and manpower training have enhanced the fairness and the competitiveness of our taxation system. Bearing in mind the revision of economic data underlying the computation of the relative tax burden, and the fiscal measures adopted in this Budget, the tax burden differential of Québec private-sector economic agents fell from 10.5 % in 1985 to 3.9 % in 1990. In essence, the improvements of recent years in terms of taxation will be maintained.

TAX BURDEN OF THE PRIVATE SECTOR
Québec — Ontario differential
(in percentage)



Note : After the tax measures of the 1990-1991 Québec Budget Speech but before the tax measures of the 1990-1991 Ontario Budget Speech.

Breakdown of the private sector's tax burden differential

Despite the drop in the tax burden differential with respect to all taxes and duties levied by provincial and local governments, an analysis of the division of the tax burden differential between various sources of revenue reveals striking differences between the Québec and Ontario taxation systems.

The Québec provincial taxation system casts a heavier burden than local taxation, compared with Ontario. Under the Québec system, provincial taxes generate an additional burden of \$ 2.3 billion, while local taxes are \$ 1.3 billion lower, mainly the result of the centralized method of financing school boards in Québec.

Moreover, the differential in the provincial tax burden between Québec and Ontario is mainly due to personal income tax (\$ 2.5 billion), despite the Québec government's efforts since 1985, which have reduced the tax burden of individual taxpayers and made the taxation system fairer.

TAX BURDEN OF THE PRIVATE SECTOR
Québec — Ontario differential
1990 taxation year

	\$M	%
Provincial taxes		
• Personal income tax	2 529	
• Health insurance premiums ¹	- 222	
• Corporate taxes ²	- 20	
• Consumption taxes ³	- 43	
• Fees ⁴	70	
Subtotal	2 315	12.2
Local taxes		
• Municipal taxes	1 362	
• School taxes	- 2 648	
Subtotal	- 1 286	- 17.4
Total	1 030	3.9

Notes : - After the tax measures of the 1990-1991 Québec Budget Speech but before the tax measures of the 1990-1991 Ontario Budget Speech.

- Individual entries are rounded off and may not correspond to totals.

1 Ontario health insurance premiums were payable three months in advance ; therefore, 1990 includes a difference equal to one-quarter of annual premiums, although the plan has been financed by a payroll tax imposed on employers since January 1, 1990.

2 Including corporate income tax, the tax on capital and employer contributions to the financing of health services.

3 Including the retail sales tax, fuel and tobacco taxes, meals and hotels taxes, duties on alcoholic beverages and the specific taxes on advertising and telecommunications.

4 Including fee revenue and duties on natural resources.